S. HRG. 98-188

REVIEW OF THE DAIRY PRICE SUPPORT PROGRAM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 491

A BILL TO AMEND THE AGRICULTURAL ACT OF 1949 TO MODIFY THE DAIRY PRICE-SUPPORT PROGRAM FOR THE 1983 THROUGH 1985 FISCAL YEARS

S. 498

A BILL TO AMEND THE AGRICULTURAL ACT OF 1949 TO MODIFY THE DAIRY PRICE-SUPPORT PROGRAM

S. 509

A BILL TO AMEND THE AGRICULTURAL ACT OF 1949 TO ESTABLISH A VOLUNTARY PROGRAM TO REDUCE BOTH THE LEVEL OF MILK PRODUCTION IN THE UNITED STATES AND THE QUANTITY OF MILK PRODUCTS PURCHASED UNDER THE PRICE-SUPPORT PROGRAM FOR MILK

S. 658

A BILL TO AMEND THE AGRICULTURAL ACT OF 1949 TO MODIFY THE DAIRY PRICE-SUPPORT PROGRAM FOR THE 1983 THROUGH 1985 FISCAL YEARS, AND FOR OTHER PURPOSES

S. 866

A BILL TO IMPROVE THE OPERATION OF THE MILK PRICE-SUPPORT PROGRAM, AND FOR OTHER PURPOSES

APRIL 13 AND 14, 1983

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REVIEW OF THE DAIRY PRICE SUPPORT PROGRAM

WEDNESDAY, APRIL 13, 1983

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:10 a.m., in room 328-A, Russell Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Boschwitz, Helms, Leahy, and Melcher.

Also present: Senator Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will come to order.

We would like to welcome everyone to this hearing. We are looking into the alternatives available to the Congress to make some adjustment in the dairy program to help bring supply back in line with demand and reduce the current cost to the Government of the program.

Last year we had hearings where we looked into various proposals that were being advanced, ranging from a cut in the support price to a base plan. There was quite a divergence of opinion in Congress. There was not enough unity to develop a consensus of support in the Congress.

You may also remember last year we had a vote on the Senate floor on a 60 cents per hundredweight cut in the support price which failed by only one vote. You may also remember the difficult time that we had in trying to work out differences between the $13.10 per hundredweight price-support floor passed by the Senate and the base rebate program passed by the House. It was that difference between the two bodies that led to the passage of the 50-cent assessment with no rebate and the option by April of this year to impose a second 50-cent assessment which was to be rebated to those dairy farmers that cut production.

You know the rest. The industry has been successful in blocking through the courts the first assessment. Now, unless an injunction is obtained, the first 50-cent assessment is scheduled to go into place this Saturday.

Based on contacts I have had with dairy farmers in my State and around the country, I think most believe there is a better way to solve the dairy surplus problem other than an assessment. That is why we are here today.

We want to hear from the industry, all sides of the issue, as well as consumers, to see if we have learned anything since the dairy program was changed last fall and if we have developed any better suggestions about how to deal with the problem. Is there a better way to encourage farmers to reduce production and to encourage consumers to buy more so we can resolve this very difficult problem which confronts the dairy industry.

We want to save the program. There is a danger in my judgment, that unless an alternative is developed, we could run the risk of losing the entire dairy program.

I appreciate very much everybody being here today to help us understand the issue better and to work toward a resolution of the problems. We will have the statements of Senator Helms and Senator Huddleston now.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. I commend you, Senator Cochran, for holding these hearings today. I am certain that dairy farmers from all across the country are relieved to see the process begin by which we may replace the assessment that was authorized last year.

Make no mistake about it, America needs a strong dairy program both because of the seasonal nature of dairying and the unique characteristics of milk. For decades, this program has worked efficiently and effectively. No one questions that it has fulfilled its goals of providing the public with plentiful supplies of milk at reasonable prices. However, recent years have seen national milk production grow far out of line with consumption, causing Government purchases and expenditures to mount well past acceptable levels.

In order to address these problems, Congress last year authorized the Secretary of Agriculture to deduct up to $1 per hundredweight from all commercial milk sales made by dairy farmers. However, the prospect of the assessment has proven to be intensely unpopular with dairymen. There are many, including myself, who feel that if the assessment goes into effect, it will not only be unfair, but could well be ineffective in reducing the oversupply of milk. It is my hope that the committee will move as quickly as possible to remove the assessment and replace it with a more equitable and effective solution.

The question of what to replace the assessment with is by no means an easy one to answer. Whatever solution we agree upon, I think it is imperative that we not simply repeal the assessment without at the same time trying to achieve a more permanent solution to the problems of the dairy price-support program.

Also we must recognize that whatever solution Congress adopts, we cannot expect that it will solve the problems of the dairy program overnight. It took us a number of years to get into this mess, and it will no doubt take us some time to get out.

With this in mind, it is my hope that Congress will move ahead with a program which is simple to implement and requires a minimum of interference with market forces. After 2 years of confusion with this program, I think we owe it to our dairymen and consumers to do the best we can this year to produce a fair, equitable, and lasting solution.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator **Huddleston**. Mr. Chairman, these hearings are timely and important because of concern about increased milk production in the face of stagnant demand, and because dairy farmers are dissatisfied with the program under which the administration intends to collect assessments to reduce the cost of the price-support program.

We all clearly understand that milk production must be adjusted to meet projected demand. We must reach a consensus concerning appropriate changes in existing law or program administration that will achieve that objective.

Several bills have been introduced to modify the milk price-support program. Senator Leahy has introduced S. 866, the Milk Program Improvement Act of 1983. Senator Boschwitz has indicated his intention to introduce the Dairy Production Act of 1983. Senator Proxmire and Senator Kasten have introduced S. 509, the Dairy Surplus Reduction Act of 1983. Other Senators have introduced legislation either to eliminate the authorization for the milk program assessment or to reduce the minimum support price for milk.

The Department of Agriculture has not yet come forward this year with a specific proposal to modify the dairy program to make it more efficient. Of course, during consideration of dairy legislation in 1981 and 1982, the administration proposed to give the Secretary of Agriculture complete discretion in setting the level of the milk support price.

I intend to look carefully at the proposals that are supported by dairy farmers. I have found that many dairy farmers are deeply concerned about the growing surplus and the lagging demand for milk products.

An unfortunate combination of circumstances—including very low feed prices and a weak economy characterized by double-digit unemployment rates—led to the temporary surplus we are now experiencing. We must find a remedy for the short-term surplus problem without damaging the long-term ability of our dairy farmers to meet consumer needs. Both farmers and consumers deserve and will benefit from a sound dairy program.

PREVIOUS LEGISLATION

In several instances during the past 2 years, Congress has modified the milk price-support program in an attempt to realine supply and demand.

In March of 1981, Public Law 97-6 eliminated a scheduled increase in the milk support price.

The 1981 farm bill scaled back milk support price increases for the years 1982 through 1985 that would otherwise have been required.

In 1982, the Agriculture Committee reported legislation, as a part of measures necessary to meet instructions under the budget reconciliation process for fiscal year 1983, to freeze the minimum support level for milk for 3 years.

The conference committee on the reconciliation bill adopted a slightly different approach, which became law. Under the conference report, the minimum milk price support for the 1983 and 1984 fiscal years was set at the current level of $13.10 per hundredweight. In fiscal year 1985, the support price will be set at the percentage of parity that $13.10 represents as of October 1, 1983.

The reconciliation bill for fiscal year 1983 also contains a provision authorizing the Secretary of Agriculture to collect assessments from dairymen to offset a portion of the cost of the milk price-support program.

Production assessments have not yet been collected. However, Secretary Block has indicated his intention to start collecting the first 50 cents per hundredweight deduction beginning April 16 and an additional 50-cent assessment on August 1.

These assessments are viewed by many dairy farmers as an inefficient approach to solving the complex problems facing the dairy industry. Further, the assessments do not help to stimulate consumption of dairy products.

FURTHER ACTION NEEDED

The Federal milk price support program, over the past 2 years, has been plagued by continued overproduction. Price support purchases of surplus products have been costly.

Mr. Chairman, we in Government must work together to find a workable and equitable solution to this complicated problem.

We must work to achieve program modifications that clearly indicate to the dairy industry that it has to begin to bring production in line with demand. At the same time, we must not withdraw our commitment to insure the availability of adequate milk and dairy products for American families.

I will not support any change in the dairy program that undercuts the dairy industry; and I will oppose any cut in price support that jeopardizes the vitality of the Nation's dairy farms.

I believe that low prices for grains and depressed livestock prices are interfering with the orderly adjustment of milk production. In addition, the depressed state of the economy has hurt the demand for dairy products.

This year's anticipated reduction in crop production, resulting from the payment-in-kind land diversion program, will increase feed costs.

With an increase in feed costs, we may see a corresponding reduction in milk production. If milk production goes down, a severe cut in the minimum milk price at this time may not be necessary to discourage overproduction.

We must be careful, in fashioning dairy legislation, not to go too far and, consequently, jeopardize the milk production capacity that will be needed in coming years.

Mr. Chairman, I look forward to hearing from the witnesses on the subject of needed changes to the dairy program.

Senator **Cochran**. We have a number of witnesses who have been scheduled to appear before the committee. We are going to group the witnesses in panels. We have a full day of hearings today. We will continue the hearing tomorrow, beginning at 9 a.m., in this room.

We will work today until around noon, adjourn, and reconvene the hearings at 2 p.m. this afternoon. Senator Pat Leahy of Vermont will be chairing the hearings at 2 o'clock for about an hour. During the other periods of time it is my plan to be chairing the hearings.

If the witnesses in the first panel are here, I would like for you to come forward to the table: Norman Barker, president of the National Milk Producers Federation; Morris Lee Scott, testifying on behalf of the Associated Milk Producers, Inc.; Tom Townsend, senior vice president of Mid-America Dairymen; Elwood Kirkpatrick, president, Michigan Milk Producers Federation; and Clyde Rutherford, president, Dairylea, Inc.

I want to welcome you all. Please have a seat.

We have statements from most of the witnesses already in hand. We will make these statements, which have been prepared in advance, a part of the record in full. Because of the large number of witnesses, we would ask you to make such summary comments or highlights from the prepared statements so we will have an opportunity for questions and discussion.

Mr. Barker, we will ask you to lead off please. You may proceed.

STATEMENT OF NORMAN BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, PRATT, KANS.

Mr. **Barker**. First of all, I thank you for the opportunity to appear. I do have a summary statement and I will present that. I would also like to present for the record a statement from James P. Camerlo, chairman of the board of United Dairy Industry Association and first vice president of National Milk Producers Federation.[1]

We believe we do have a better way for a solution to the dairy problem. I am Norman Barker, a dairy farmer from Pratt, Kans., president of the National Milk Producers Federation and a member of Associated Milk Producers.

My remarks today are directed toward the dairy compliance program, which does address the need for temporary changes in the dairy price support program.

Elwood Kirkpatrick, president of the Michigan Milk Producers Association will address the national dairy promotion program, which is an integral part of the overall effort of dairy farmers to address the problems our industry confronts.

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[1] See p. 144 for the prepared statement of Mr. Barker, and p. 173 for the prepared statement of Mr. Camerlo.

I associate myself with what he will say and wholeheartedly endorse his recommendations.

As we know, the dairy price-support program has operated effectively since 1949 to provide a minimum degree of price assurance to the dairy farmers, while assuring the production of an adequate supply of milk to the Nation. In large measure, the problems faced by the dairy industry today are a reflection of those depressed conditions that exist in American agriculture and in the general economy.

The drastic decline in farm income that has taken place over the past 3 years must be reversed and economic vitality restored to agriculture if the measures under consideration here are to be successful.

We believe there are two basic avenues that might be followed. The first represents granting the Secretary of Agriculture broad authority to reduce the price-support level.

The second is to provide individual producers incentive to adjust the milk production to the needs of the market.

Senator **Boschwitz**. Where are you reading from, Mr. Barker?

Senator **Cochran**. He is not reading from his testimony; he is summarizing.

Mr. **Barker**. In reviewing his plan for price-support level reduction, Secretary Block has stated that any solution to the present problems must be simple and must recognize the unique nature of the dairy industry.

Yet, he appears willing to consider only that path which he sought to follow with other commodities until the dismal level of farm income forced at least a temporary abandonment through the announcement of the payment-in-kind program just a few months ago. Following several months of deliberation, almost 80 percent of the members of the board of directors of the National Milk Producers Federation stated their view and believe there is a better way by voting in favor of the dairy compliance program and the national dairy promotion program before you today. That percentage today is about 85 percent, we understand, as far as the support of federation members as of today.

The four basic criteria that must be considered in judging any program would be, first, bring about a reduction in milk production; second, enhance the demand for milk and dairy products; third, provide a level of income to farmers that will maintain the basic productive capacity that we need in the industry; and fourth, reduce Government costs.

We believe the dairy compliance program, along with the expanded program of product promotion, effectively addresses each of these. A reduction in the price-support level will in the near term meet only the point related to demand enhancement and will accomplish that only if the farm price reduction is reflected in consumer prices.

The dairy compliance program provides a strong incentive in the form of a $10 per hundredweight payment for reduction in marketing below the average of those marketings during fiscal 1981 and 1982 level. At the same time, it provides a strong disincentive to continued expansion through a reduced price of $12 per hundredweight on surplus marketings for those who do not cut back.

The program is entirely voluntary. It does not limit producers in any manner. It provides a means for the individual dairy farmer to determine how it best applies to his operation and it leaves him free to make his decision on that basis.

The program is very simple in operation. For the farmer participating by reducing, he would have to have his marketing history certified by the county ASCS committee and give that certification to his cooperative or the plant that buys his milk. He would then apply quarterly to the ASCS office for the incentive payment that is due him.

For the farmer not participating in the program, no action will be required. For cooperatives and others buying farmers' milk, they would apply the reduced price for surplus marketings on the basis of the farmers' certification of marketing history, remit those funds to the Commodity Credit Corporation to be used to fund the incentive payment due farmers for reduced production.

Should the cooperative or plant choose to do so, they could undertake to make the incentive payments to farmers themselves. The Government responsibilities would center on county ASCS committees, making the certification of farmers' marketing history and making the payment for the reduction in marketings.

We believe the program is direct in its application and that it will reduce production. It will enhance demand. It will maintain the farm income for those who reduce production and it will, last but not least, reduce Government costs.

Mr. Chairman, that is the sum of the statement.

Senator COCHRAN. Thank you very much, Mr. Barker.

We appreciate your statement. I am going to ask Senator Boschwitz if he has any comment, Senator Melcher following that.

We are hearing from proponents of the federation plan representing various organizations around the country. This is our first panel of witnesses and we have just heard from the first witness.

Senator Boschwitz, do you have any statement or questions? You may proceed.

Senator BOSCHWITZ. I thank you, Mr. Chairman.

It looks like you will have a very busy day.

Senator COCHRAN. Almost 2 days of business.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Yes. I see that you have a very long list of witnesses that encompass much of the weeping areas of the country and I regretfully am not going to be able to be here with you during the entire day. As a matter of fact, I will have to leave relatively soon because of the activities of the Budget Committee meeting simultaneously with this committee which will continue until 7:30 tonight.

But I will read the testimony and I am in sympathy with the National Milk Producers Federation and their plan. We introduced that plan last year and hopefully we will be able to find a way to convince more Senators this year that that plan is the appropriate one.

I agree very much with Mr. Barker's statements that a large part of the problem is not so much in overproduction as it is in underconsumption. One of the very strong elements of the plan is the check-off and the use of those funds for the purpose of stimulating some demand for dairy products, because the demand for dairy products has declined rather markedly over the years. If the level of demand had been retained where it was 30 years ago, we would have an enormous shortage.

So, hopefully, we will be able to sell some milk and that will be one of the principal elements of finding our way out of this problem.

I thank you, Mr. Chairman, for having these hearings and I will try to be in attendance as often as I can.

Senator **Cochran**. Thank you very much, Senator.

Senator Melcher.

Senator **Melcher**. Thank you very much, Mr. Chairman.

I think it is very wise that we have these hearings right now because we do not seem to be able to make the dairy program work, I think, in a defined historic commonsense.

Mr. Barker, you seemed to note that Secretary Block does not want to use commonsense. Is that a fair appraisal of your statement?

Mr. **Barker**. I believe, as I pointed out in the summary of the statement, that he has maintained the position he held a year ago which is contrary to recommendations we believe will work in solution to the problem.

Senator **Melcher**. Yes. I know you say here on page 5 that the Secretary appears to be dedicated to a course which serves to provoke the dairy industry, to confuse the Congress, and to delay effective response to solving the problem.

Are the producers of the dairy industry united in wanting to at least face up to one little aspect of this problem and that is to limit casein importation?

Mr. **Barker**. Yes, indeed. We have indicated so very strongly in the past that question is not, however, addressed in the statement in any detail.

Senator **Melcher**. But you are united on this?

Mr. **Barker**. I think we are fully united, as best I know.

Senator **Melcher**. This is a very simple situation. You understand, I think at least a year-and-a-half ago, half of the casein imported went into food products and then substituting or displacing that amount of dairy products produced in the United States, causing the Federal Government to have to pay more for those displaced domestic products.

I do not see anything very complicated about that. Is it still true that over half of the imported casein goes into food products?

Mr. **Barker**. Yes, at least that much, Senator; I believe more than that.

Senator **Melcher**. Are you still convinced or is the Federation still convinced that the casein being imported into this country is subsidized by the countries from which it derives?

Mr. **Barker**. Yes, we are. and we believe that the USDA study indicated that.

Senator **Melcher**. Do you have anything specific on New Zealand? I have discussed this with the New Zealand ambassador a couple of years ago. He insisted that they would have to put a subsidy on casein exports that come to this country.

Mr. **Barker**. That is a technical issue. I might call on Mr. Healy to respond or some of the other panelists. We believe that it definitely is subsidized.

Senator **Melcher**. All right. Thank you very much.

Senator **Cochran**. Our next member of the panel is my good friend and one of our leading citizens in the State of Mississippi who is looked to for leadership in many areas. Dairy farming is one of them. We are happy to have Morris Lee Scott as a member of this panel this morning. Welcome.

STATEMENT OF MORRIS LEE SCOTT, REPRESENTING ASSOCIATED MILK PRODUCERS, INC.

Mr. **Scott**. Thank you, Senator, for saying those kind words. I think maybe at this point I should say that I might be a candidate for the U.S. Senate for Mississippi in 1984. [Laughter.]

I am a dairy farmer from Hernando, Miss., a member of the Mid-South Division of AMPI. The Mid-South Division is made up of producers from north Mississippi, west Tennessee and southwest Kentucky.

I own and operate a 460 acre dairy farm at Hernando, Miss. We milk about 75 cows and have about 50 heifers as potential replacements. We produce most of the hay and pasture for the dairy herd, and buy a large portion of the concentrate ration as pelleted commercial dairy feed, such as cotton seed hulls and cotton seed meal.

I believe a dairy producer incentive plan such as the dairy compliance plan will solve the surplus milk problem, production problem we have today. I particularly like this program because it reduces milk production on a number of farms but not the total farm. But the current assessment or a support price cut will initially cause producers to increase their milk production for cash flow needs and then the disaster comes with massive dairy farm failures.

The surplus is a national problem, not a regional one. A Federal order hearing was held in Atlanta, Ga., recently on a proposal to grant transportation credits to organizations transferring or diverting milk to unusually distant outlets for surplus milk disposal, some located as far away as Ohio, Indiana, Illinois, Iowa, New York, Minnesota, and Wisconsin.

One of the witnesses accurately described the milk production increase.

> Increased production results not because any particular group of farmers have decided to produce more milk, but rather because almost all dairy farmers are producing more milk.

The signup for the PIK program was overwhelming. What is PIK? Supply management with an incentive. What is the dairy compliance plan? Supply management with an incentive and it will work also.

I cannot understand how Secretary Block can say that PIK is the answer to available production in other commodities but absolutely refuse to consider anything but a price cut or an assessment for dairy farmers. This is certainly a contradiction.

I believe a milk price support cut will bankrupt a sufficient number of dairy farmers. In March, USDA's Bill Lesher told the Midwest Milk Marketing Conference in Madison, Wis., that a price level of $10 per hundredweight would probably be necessary for 2 or 3 years to correct the current problem.

This is not the time for a price cut. Monday I purchased corn in Hernando, Miss., for $3.78 per bushel. Last October I paid $2.72 a bushel. Yesterday, we purchased cotton seed hulls for $55 per ton. Last October we purchased the same meal for $10 per ton.

Feed concentrate prices are moving up near target levels and this provides additional incentive to reduce production.

Senator BOSCHWITZ. Pardon me. You bought them for $10 last year?

Mr. SCOTT. Last October, yes.

Senator BOSCHWITZ. And $55 now?

Mr. SCOTT. $55 yesterday. I called my son this morning to be sure that the price has gone up from last Friday from $45 to $55 on Tuesday.

Senator MELCHER. Mr. Scott, is that partly a result of the PIK program?

Mr. SCOTT. Well, it has only been moving up. So I presume that that is. That is the only way I know it.

Senator MELCHER. I would assume so.

Mr. SCOTT. I would think that the PIK program has caused it.

Senator MELCHER. In effect, you do not decry the improvement in the prices of these commodities?

Mr. SCOTT. Well, if we will be cutting the price of milk, we need to do something else.

Feed concentrate prices are moving up near target levels and this provides additional incentive to reduce production. Higher feed costs will make the reduction incentive payment more attractive to many producers and increase participation. I think it is a good program and will find enough producers interested in the incentive to solve the national surplus problem rather quickly.

The provisions to establish financing for milk sales promotion should be supported by all dairymen. It is important that such funding be provided pro rata by all milk producers, to achieve equity as between producers.

I fully recognize that as dairy farmers we have produced too much milk and something must be done to restrain domestic milk production. But Government too has a great deal of responsibility for the crisis in dairy. The surplus is bigger because diary farmers' interests were ignored in the multilateral trade negotiations, resulting in large increases in imports of cheese. The surplus is still larger because—for unexplained reasons that must have to do with our international relations—section 22 of the Agricultural Adjustment Act is not being enforced according to the clear intent of law, with respect to casein imports. On two occasions the International Trade Commission has used statistical arguments that are obviously flawed to "prove" that the price-support program is not being "materially" and adversely affected by casein imports.

Dairy farmers are not so naive as to buy the argument that we can import the equivalent of 4 billion pounds of skim milk, have a major part of it processed into imitation cheese to undersell domestic cheese, without increased purchases of cheese by CCC. Neither are dairy farmers naive enough to believe that our cheese markets are not damaged by the market presence of imported cheese, even if we are unable to prove that the unneeded cheese was sold at a lower price.

The governmental policy in both of these areas was apparently based upon the general public interest.

Finally, a major underlying cause of the dairy crisis was the inevitable collapse of the fence row to fence row, free market policy established in the 1970's.

Governmental policies have done much to create the farm crisis. So far we have not devised nongovernmental approaches to solution of the farm problem, and if we did, governmental policies would prevent their implementation. I say it is time for Government to address the dairy problem seriously, and to commit resources to the dairy solution commensurate with its commitment to meet the economic crisis throughout the remainder of agriculture.

It is not enough to wait for 100 percent unanimity by all dairy farmers, a phenomenon that would be unique in history. Such anticipation merely presents a method to evade leadership responsibility.

We have a majority consensus among U.S. dairy farmers supporting the national milk producers dairy compliance program. That plan now merits the full support of Congress and the administration. The administration can also do much to reduce the scope of the problem through following the intent of section 22, and through aggressively pursuing international sales of dairy products.

If the compliance plan has imperfections, let's work together to improve it. It's the only game in town, and we need to get on with it.

I want to thank the committee members for your interest and your consideration of my views.

Senator COCHRAN. Thank you very much for the statement. I think we will go ahead and hear from other members of the panel. Then, after everybody has made a statement, we will have the discussion.

Mr. Kirkpatrick.

STATEMENT OF ELWOOD KIRKPATRICK, PRESIDENT, MICHIGAN MILK PRODUCERS ASSOCIATION, SOUTHFIELD, MICH.

Mr. KIRKPATRICK. Thank you, Mr. Chairman.[1]

I am Elwood Kirkpatrick, a dairy farmer from Kinde, Mich., and president of Michigan Milk Producers Association, a dairy cooperative marketing association headquartered in Southfield, Mich.

I would like to direct my comments today to the national dairy products promotion program, which is an integral part of the policy recommendations advanced by the National Milk Producers

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[1] See p. 177 for the prepared statement of Mr. Kirkpatrick.

Federation for dealing with the current dairy surplus situation. As a member of the board of directors and executive committee of the federation, I have worked closely with the development of this policy. The federation president, Norm Barker, has addressed the dairy compliance program as part of that policy. I concur with what he has to say and would like to associate myself with his testimony.

The expansion of milk production in recent years has led to increased Commodity Credit Corporation purchases and increased Government costs. This has resulted in a great deal of attention being directed toward means of reducing milk production.

There is another side to the question, however. Increasing demand for milk and dairy products can effectively serve the same purpose while maintaining a higher level of overall economic activity. Experience by the dairy industry solidly proves the effectiveness of a well-run product promotion program. This experience is bolstered by a research and market analysis that demonstrates added potential for these efforts. USDA research from the mid-1970's updated to today's cost of operation indicates that a program aimed at promotion of cheese and butter and funded at a $72 million annual level could increase consumption of these products by almost 2.9 billion pounds milk equivalent annually.

Market research conducted this past year for the United Dairy Industry Association has shown that the specially targeted slice of life advertising campaign on cheese conducted during 1980 and 1981 increased cheese consumption over the 2 years by 188 million pounds, the equivalent of almost 2 billion pounds of milk.

Research at Michigan State University has determined that the potential return to dairy farmers for every dollar committed to generic advertising programs approach $2.20. The potential is there. It can make a major contribution toward resolving the problems we face today.

What dairy farmers are requesting is the authority to develop and operate a national program of product promotion, adequately funded through contributions of every dairy farmer in the country. The legislation before the committee is similar in most respects to that approved by Congress for several other commodities and is essentially identical to the program supported by dairy farmers in several States. The program would be operated by a dairy farmer board of directors. However, program budget and project plans would be subject to the review and approval of the Secretary of Agriculture. The program would initially be established at the direction of the Secretary of Agriculture.

This bypasses the producer referendum required under most similar programs. There is sound reason for doing this. The initial intent of the program is to assist as rapidly as possible in reducing costs under the dairy price-support program. The lengthy process of nationwide hearings and referendum would mean substantial delays in bringing this about. This would be costly from the standpoint of both the producer and the Government.

Provision is made for a producer referendum to be held during August or September 1985. If not favored by a majority of producers voting in this referendum, the program would terminate on December 31, 1985.

The program provides for a mandatory 15-cent assessment on all milk marketed to provide the necessary funds for operation. A credit of up to 10 cents per hundredweight would be available to farmers participating in qualified promotion programs. To a great extent, this assures that the national program would complement rather than replace a successful existing program.

The mandatory nature of this program is key. In an effort of this type, all producers benefit from the effort. Therefore, all should bear the burden. There is another side to that consideration. To the extent that nonparticipation by some weakens the total effort, such nonparticipation reduces the value of the input by those supporting the program.

Right now in the dairy industry, a high percentage of the milk marketed is covered under a mandatory program operated under State authority or through cooperative programs. For too long those of us in agriculture have assumed that our responsibility was a production of the product. Sales were someone else's domain. That attitude, if it ever was well-founded, no longer satisfied the need.

Farmers must be concerned with the development and maintenance of their market. This program will provide a necessary tool to assist in this work.

At our annual meeting of the Michigan Milk Producers Association, held in March, our 450 member delegates were present, representing our 6,600 members. We did unanimously support both the pricing program and the promotion effort endorsed by the National Milk Producers Federation.

In addition, this past year in Michigan we have passed by referendum vote a local promotion program for up to 10½ cents per hundred. It was voted on by dairy farmers in Michigan in the past with an 83 percent favorable vote. And I believe this does indicate that dairy farmers are willing to open their pocketbook to develop the promotion program.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Mr. Kirkpatrick.

Before we hear from Mr. Townsend and Mr. Rutherford, we recognize Senator Leahy who has joined us. Do you have to make any statement, comment, or observations you would like to make at this time?

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Thank you, Mr. Chairman.[1]

I want to compliment you for the hearing you set up. I think the panels that you have put together assures that everybody's views are going to be heard. You, as chairman, and those of us as members will know more about milk than we ever thought we would want to know or would ever want to know again.

Senator BOSCHWITZ. My question is that with all these witnesses who is home milking the cow?

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[1] See p. 141 for the prepared statement of Senator Leahy.

Senator LEAHY. We want to make sure that the answers we are hearing are the same answers heard clear out in some of those milk parlors.

I think it is important that we have all these separate voices. I know in reading some of the testimony ahead of time and in talking with a number of people here in the room, about at least a half a dozen or more of the people here in the room, in my own office, I know we are going to have differing views.

I would hope, and I am sure the chairman does, that having had these hearings, we can then get together either formally or informally along with the Senators and the House Members who are most interested, and that is about a dozen Members, probably at most, in both bodies who would really be doing the bulk of the work on dairy matters, the Department of Agriculture, consumers and producers, and try to make our way out of this mess somehow.

If I were to ask any one of the experts here to draw up a program which would be the perfect program and guarantee that there would be an act in the law this afternoon, there is nobody here who could do that.

There is nobody here who could draw one up that they could say, "I am absolutely and totally satisfied with this and it is fair for the whole country" and so on. You just could not do it.

And whatever we draw up is going to have to be a plan that will pass, both the House and Senate, be signed into law by the President, and have enough support in the country so that there will not be a continuing decline in farms, especially the family farms, that we need desperately for both the social and economic wellbeing of the United States.

So I would suggest, Mr. Chairman, that eventually what we are going to end up with is some kind of a compromise plan in which a lot of the competing interests are each going to have to give something. It would be a lot better to get a plan that we can all like somewhat and have one that we can stay with for a few years instead of constantly changing and constantly having these hearings every 6 months. I think your members are willing to give a little somewhere for some consistency.

But from what I hear from the dairy farmers in my State—and I am sure you hear, Mr. Chairman, and I am sure you hear them, Senator Boschwitz—is "My God, how many times are those rules going to change."

And I think what this subcommittee is trying to do, and the full Senate Agriculture Committee, one of the best friends dairy farmers have on the Hill, is to try and get something that we can all live with, but also to have something that lasts.

Mr. Chairman, I compliment you for doing this and I am looking forward to the hearing.

Senator COCHRAN. Excellent statement, Senator. We really appreciate you carving the time out of your schedule to be available for these hearings. Your leadership is very important in the effort to get a program put together.

I am going to have to make a phone call. I am going to ask Rudy to supervise the proceedings here as we finish this panel.

Mr. Townsend is recognized now, then Mr. Rutherford, and then we will have a chance for some questions.

STATEMENT OF THOMAS TOWNSEND, SENIOR VICE PRESIDENT, MID-AMERICA DAIRYMEN, INC., SPRINGFIELD, MO.

Mr. **Townsend**. Members of the committee, it is always a pleasure to appear before this distinguished body. I too wish I did not have to be called at all.

I am Tom Townsend, corporate senior vice president of Mid-America Dairymen. Mid-America Dairymen is a cooperative of dairy farmers, 11,500 dairy farmers, address and P.O. Box 1837 Southside Station, Springfield, Mo. 65805.

Mid-America represents the 11,500 dairy farmers in 12 Midwestern States with the most dairy farmers in the States of Minnesota and Missouri. We market approximately 6.7 billion pounds of milk annually.

Mid-America dairymen concluded its annual meeting 2 weeks ago. Our dairy farmers discussed and debated various proposals to solve the dairy problem, the dairy problem being defined as an imbalance between supply and demand that results in Government purchasing too many dairy products at too high a cost.

The Mid-Am delegates unanimously passed a resolution that essentially says that we support any dairy solution that: First, does not reduce milk price supports; second, has an incentive for individual dairy farmers to reduce their production or to increase their production if the need is there; third, if it has a base, to have a base that is acceptable to the majority of the dairy farmers; and fourth, to provide for mandatory deductions from dairy farmers for education, research, and promotion of milk and dairy products.

Under these guidelines, we support the dairy compliance program as outlined by all the other witnesses on this panel. In addition, we will support any other program which meets the guidelines I have just outlined. We sincerely want to help find the solution to the dairy problem that is acceptable to dairy farmers, this committee, the Senate, the House and the administration.

I want to emphasize that it is not the first time that Government has purchased substantial quantities of dairy products. It has happened at the beginning of almost every decade since World War II, in the first part of the fifties, the sixties, the seventies and now the eighties.

Solutions to the imbalance between supply and demand have varied everywhere from a slight price support cut to other economic conditions that have solved the problem. It is significant that not all dairy farmer representatives agreed on solutions then or now. We were and we are independent people with different views.

We think it is even more significant that now almost 80 percent of the board of the National Milk Producers Federation supports the dairy compliance program. This is a very substantial agreement. Most likely it is a higher percentage of agreement that will be forthcoming on most controversial votes that come before the full Senate.

Mr. Chairman, I appreciate the opportunity to be here. Thank you very much.

Senator **Leahy**. And you are waiting for us to find a magical solution too.

Mr. **Townsend**. We are here to help.

Senator LEAHY. Thank you.

Senator BOSCHWITZ. Have we heard from everybody on the panel?

Senator LEAHY. No, Mr. Rutherford.

STATEMENT OF CLYDE RUTHERFORD, PRESIDENT, DAIRYLEA, INC., SYRACUSE, N.Y.

Mr. RUTHERFORD. Members of this committee: I thank you for the opportunity of putting into the record some comments on the proposals now before this committee.

First, let me say that I am here representing the 3,300 members and families of Dairylea Cooperative and as vice chairman of the Northeast Coordinating Committee, which is representing in excess of 20,000 dairy farmers from the Northeast.

Dairylea is a milk marketing organization, operating in some seven Northeastern States, principally New York, New Jersey, Pennsylvania, and part of New England. We were founded 75 years ago as the Dairymen's League Cooperative and we have had a proud history of service to agriculture. The late Senator Capper publicly credited Dairymen's League vice president, John D. Miller with writing the basic draft of what eventually became the Capper-Volstead Act.

Tough times are once more descending on dairy farmers. It is easy to say that we brought it on ourselves, which is exactly what the media is saying. But I believe that people in this room know it is not as simple as that. It is easy to say that an overly generous price support system is responsible for our milk dilemma, but that is also only part of the truth.

The whole truth involves the productive, competitive drive of farm people, the inconsistency of Federal import policies, the occasional political tinkering with the mechanisms that have worked well for over 30 years, the need for visible targets when budgets are up for debate, a period of good weather that has lasted far longer in this country than climatologists ever believed it could, improved breeding and feeding, and improved crop varieties and farm machinery, FmHA policies encouraging expansions, wars and a whole host of things I cannot remember.

They have all contributed to bringing us together here today to try and agree on a method that will force enough dairy operators out of business to bring production down to where the agricultural experts in the Office of Management and Budget think it should be. Of course, the OMB experts measure dairy production strictly in terms of budget costs.

If I seem a bit angry, I guess it is true. I am a farmer, not because it is a get rich quick scheme, but because it satisfies me and I am able to use my skills to be as productive as I am able to be. My neighbors, those next door and those 1,000 miles away, feel the same way. We know that whatever proposal is adopted by Congress is going to speed up something that has been going on without pause for 75 years or more, the elimination of family farms.

Mr. Stockman says that we must save $1 billion in the budget—probably so. But as I sit here and put my cooperative on record in support of the National Milk Producers Federation plan, I have to ask: What is the cost of saving $1 billion? Has anyone taken the time to figure out how much saving $1 billion this year is going to cost America in the years ahead?

How many people in the United States ride to work on a dairy cow and do not even know it, or do not stop to think about it? Truck builders, petroleum workers, accountants—the list is endless. Who really knows how much that $1 billion spent by the CCC to buy dairy products is reflected back through the economy in jobs and commerce? Who really knows what is going to happen when perhaps 10,000 dairy farms or more go out of production?

Who has computed the effect on local State and Federal taxes? What will happen to the rural school systems which are already in deep trouble?

I suppose, as we weigh the black and while realities of surplus products filling warehouses and costing $2, perhaps $3, billion, all of these considerations must seem very remote.

I can only warn you, speaking as one person looking from an inside position as a farmer and dairy leader, that there is no plan that will prevent some degree of chaos, except perhaps to be patient and recognize that the support price has not been increased since October 1980. These elements are in place and they will work.

The increasing cost of producing milk, set against a relatively unchanging income from milk must ultimately reduce production. We really do not have to club farmers out of business. Any improvement in the general economy, producing an upturn in alternative opportunities, will accelerate the close-out of those farms that are approaching that decision even now.

Having said that, let me say that I hardly expect we can persuade enough Members of Congress to accept that analysis. The word "billion" looms large in headlines. The New York Times and the Washington Post and the Wall Street Journal have said that dairy farmers must go—so be it.

In spite of the fact that Secretary Block has repeatedly said that the dairy industry cannot get together on a single program, we have. The plan incorporated in H.R. 2253 reflects a vast amount of work and compromise by dairy operators throughout the United States. It is true that we do not have total unanimity but we have almost 87 percent support from the concept embodied in these bills. I would remind the Secretary that most of the major legislative efforts representing significant changes in direction during the history of this Congress have had little more, usually much less, support.

There is no point in my reviewing what is included in the federation plan. Everything we have learned from surveys and discussions with producers indicates that a plan that includes an incentive payment will reduce production and thereby CCC costs faster than any other method, and a great deal faster than the cut in supports advocated by Secretary Block. All we need to do is look at the results of the PIK program.

More important, it provides an avenue for those farmers who may decide to call it quits to get some temporary cash flow help during a brief transition period. It also provides a similar buffering for dairy operators who want to stay in business but need some help while they cut back their operations.

It is a good plan. I personally believe it will work. It is more humane than a milk tax followed by a price-support cut, probably followed by a long succession of farm bankruptcy.

I urge the Congress to give the proposal rapid approval and, while we are preparing to put it into operation, kill off this destructive 50 cent milk tax which may delight the keepers of the budget but it is a disgraceful assault on thousands of farm families that are still part of the backbone and survival team for this country and a good part of the world.

Thank you.

Senator **Cochran**. Thank you very much, Mr. Townsend.

Senator Boschwitz, any questions of the panel?

Senator **Boschwitz**. Let me ask the panel or Mr. Healy whether or not you have received——

Senator **Cochran**. We do not need to swear him in.

Senator **Boschwitz**. He is kind of sworn in. I tell you quite frankly that he is a very effective person on the Hill. He was patient with me as I began to learn a little bit more about your problems, which I was not so familiar with upon arrival here. He has given up smoking cigars, which has gained him admittance into a number of offices. But, in any case, I wanted to ask whether or not you have seen any measurable impact on dairy production as a result in the rising price of corn and other elements that you spoke of in the feed program?

Mr. **Rutherford**. I comment as a dairy farmer and our view in the Northeast and we do purchase a good share of our concentrates shipped in from the Midwest, and a 20-percent concentrate has increased roughly $10 a ton since the announcement that the PIK program had reached roughly a 25-percent area. And we see it rapidly increasing as the amount of participation increases.

But as you talk to dairy farmers and ask them: What are you going to do about this, and they are saying I have no choice; I have to maintain my feeding program if I am going to maintain my production in cash flow. Cash flow is the name of the game in the dairy industry, especially back at the farm level.

We find farmers who at the 25 or 35 percent equity basis, being the ones that are going to come under the gun because they cannot borrow more money and yet the bankers are saying they are the ones they want to go out of business because you have got enough equity left to pay off your loan.

Senator **Boschwitz**. Have you seen any statistics for the month of February? Have they come out?

Mr. **Healy**. Not yet, Senator Boschwitz.

Senator **Boschwitz**. I noted in your initial testimony, Mr. Barker, you talked about dairy consumption. I noted consumption was up just a little bit recently too. Is that considered to be anything of a trend or is that an aberration?

Mr. **Barker**. We hope that it is a trend, Senator.

Mr. **Townsend**. Cheese looks good. Cheese consumption continues to increase, particularly natural cheese. You know, there is a lot of it in Minnesota.

Senator **Boschwitz**. Oh, yes! I am very pleased.

Do you trace some of that to the advertising program that you have?

Mr. **Kirkpatrick**. There was a definite increase when the Slice of Life advertising program was in effect. I think it indicates a promotion will work and can work at levels high enough to get results.

Senator **Boschwitz**. Yes. I saw an article in part that showed the effectiveness of advertising and it seems to me I have seen some specific figures on the Slice of Life.

Let me bring your attention back, Mr. Barker, or anyone in the panel, to the statement that Senator Melcher referred to about Secretary Block, that he appears willing to consider only that path which he sought to follow with other commodities until the abysmal level of farm income forced at least temporary abandonment through announcement of the PIK program just a few months ago.

I presume that you are not saying, nor would I presume my colleague is suggesting, that it has been these abysmal programs that have forced down farm prices. I think it is important that we recognize that the Secretary is seeking a solution to this problem that is equitable as well.

I have heard the Secretary and Deputy Secretary talk about the history of the milk program and the problems that existed before there was such a program. The desirability of retaining the program is there so I think we will get their cooperation.

I think the PIK program is an imaginative program that has helped the farm community. I also think it is important that all this time we do not look for contradictions in the farm program.

We have tried to assault the Secretary. I think that he will come on our side. He has been most concerned about farm programs. I see that one of you gentlemen testifying mentioned the House number of your bill. It will have a Senate number. I believe I am introducing it today and, hopefully, we will make some progress. This is being laid down because we want to have all the programs before the Senate as we proceed in our consideration.

I know the Secretary looks upon the PIK program for farm products regarding crops somewhat differently than he does with respect to animals. He finds animals to be more portable, and rightfully so, than farm land. As a result, he feels that a PIK program with respect to animals that are portable will be somewhat more difficult to implement.

But I appreciate all of your testimonies. I quite concur with Senator Leahy, who has indeed shown some leadership in this matter, together with our chairman, that hopefully we will be able to work out a program that you will find satisfactory and, I hope, as close as possible to the program that you are suggesting to us this morning.

Senator **Cochran**. Mr. Barker.

Mr. **Barker**. Senator Boschwitz, I think I have caught the words "an assault on the Secretary" and, if our statement seems to indicate an assault, I think that is a harsh term. We did not wish to indicate it at least.

However, we do feel the Secretary apparently is maintaining a position different from what we thought he had given us when he laid down different guidelines to attempt to follow in developing industry recommendations. We believe the dairy compliance plan in good measure does meet several of the stipulations that he made then.

Senator BOSCHWITZ. I think the Secretary has not found the plan currently that suits him, his staff, or the entire group at USDA. Therefore, they have adhered to the idea of just driving the price down and pushing those of us, including yourselves, who are interested, to try harder in coming up with a suitable plan that will satisfy you and the Secretary.

Mr. TOWNSEND. We hope that is his intent.

Senator BOSCHWITZ. I think so. I think you can have a reasonable assurance of that. That, at least, is my feeling from having met with him a number of times and having met with Secretary Lyng, as well, a number of times about the subject.

I know that they are very concerned about quotas and about the fact that we will have a situation not unlike Canada, and I know that you gentlemen are not in favor of that. But your sentence there was something of an assault upon him and, when you say you cannot understand how he can see that PIK is the answer to overproduction in commodities but that it does not apply to dairy farmers somehow, that is a contradiction stated by Mr. Scott. The contradiction apparently is based upon the portability of the animals and somehow we have to get him off that.

Senator COCHRAN. Senator Leahy.

Senator LEAHY. I would like to really reiterate, Mr. Chairman, while I disagree very strongly with the administration's dairy policy.

I am convinced that Secretary Block wants very much to come up ultimately with a plan that is fair to the dairy farmers of this country. He understands the complexity of it and he realizes that it is not going to be easy. He has again made an offer to work closely with this committee. He did that as recently as last week when the three of us, along with Senator Huddleston, met with him.

I am actually convinced of Secretary Block's sincerity. I like him personally and I think he does want to reach agreement. I think he also has the constraints of OMB, constraints of conflicting agricultural interests. I do not know how anybody on God's green earth would want to be Secretary of Agriculture under any administration. It seems to me it is the most difficult job there is down here.

But I also think that we are at that kind of a crossroads that if we are going to work something out, we are going to work it out now, this year. We are going to have to. Next year is the Presidential election year; it is a congressional election year. All of the other problems are going to come up and this is just going to get shoved aside. We are going to have band-aid treatment and you are not going to benefit by that; you nor any of the dairy groups that are represented here are going to benefit by it. So we really are at a critical time and we have got to look at that.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

Senator Melcher.

STATEMENT OF HON. JOHN MELCHER, A U.S. SENATOR FROM MONTANA

Senator **Melcher**. As I sit at this table at these hearings, I always have to recognize that we are going to have witnesses from Mississippi or Kansas or from Minnesota or Wisconsin, Texas, Alabama, almost every State. I do not think we are going to have a witness from Montana because we are not much of a milk-producing State.

But over the time I have certainly been convinced that this dairy program is an excellent program. It really does the job in producing a rather vital basic food substance at reasonable cost for the consumers, that is what that program is for.

We have a surplus now for the past several years, partly due to imports, which we could correct and should correct. And if we did, we would have a rather minimal surplus problem.

But a surplus of a basic food is not failure; it is success. I wish we had a surplus with a lot of other things around here in this country—a surplus of small business making profits so they could pay more taxes, a surplus of jobs which is a really critical need right now. And I think the two are related because when you look at agriculture, our most basic industry in this country, you will find that none of it is doing it very well and then find one of the key parts of it, the dairy producers, are really struggling. Then you realize where a lot of the jobs have gone. If this basic industry were going well and agriculture going well in this country, there would be a lot more jobs.

I have been convinced over the more than dozen years that I have been here in Congress that the milk program is a real sound program. I think one of you mentioned at the beginning of each decade for the last three decades we have had a surplus situation. That is not failure. Our only failure is not channeling it where it belongs.

I am advised, I believe it was yesterday, that we are going to have some dry powdered milk out of CCC stocks made available in Montana and, other than some pilot programs, it is probably the first State that is going to get it. Well it will go to the schools, I guess, and to the Salvation Army, I hope, and to the church food banks and senior citizen centers and be made available to others who need it. That is one advantage we have with the dairy program and the CCC stocks with which we can do that. That is not negative. That is positive. That is success.

I am not thinking of the PIK program as anything remarkably imaginative. The only thing imaginative about the PIK program is that the dollar is going to handle the commodities. And perhaps the most imaginative part of it is if you handle commodities, it gets by OMB and David Stockman, and it looks as if it is not costing anything.

Well, the PIK program is going to cost more in 1 year than I suppose the total of the farm programs over the past decade or two. Maybe you can add up all of it, what the commodity programs have cost and agriculture programs since the 1930's and find that the PIK program in 1 year is going to cost more than all those combined.

If the commodity is wheat, I do not recognize wheat as being valueless; I recognize it as being bucks and dollars. If it is cotton, it is the same thing to me—likewise corn and rice. The only thing wrong perhaps with dairy right now is that we have not latched on to the imaginative part of the PIK program and handled it through surplus commodities, just like these other commodities we handle.

I do not think this program is anything that we cannot handle. I think we can handle it. But I think the main thing is that we should not treat it as being a failure. You people do not and you are correct. I do not and I think we are all correct. It is a success story and abundance is not failure, abundance is success.

So we can handle this, I believe, if we just use some commonsense. I do not think saying that Secretary Block lacks some commonsense right now is assaulting him at all. I think, unfortunately, it is the same thing we have said about all past Secretaries in the past 20 years. At times they lack commonsense. Congress has often lacked commonsense. If we use the knowledge, we will be all right.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator, very much.

There is an indication in the testimony from the panel that the problem in the dairy industry is not a regional problem, that it is a national problem. I think we all agree with that. But there are some statistics that are relevant from the standpoint of inquiring about the level of participation in the program advanced by the federation.

For instance, in the Southeast we have some statistics that show that production has increased by 2.3 percent in 1981 and by 0.4 percent in 1982. During the same period, production in the Mountain States—Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada—has increased 9.2 percent in 1981 and 6.3 percent in 1982.

My question is in two parts. Would this indicate that there would be more or less incentive for dairy farmers in regions like that to participate or want to support the federation program? Would there be any penalty for those regions where production has not increased very much in the last 2 years as compared with what would amount to a reward for those regions where there had been substantial increases in production?

Mr. Barker? Who wants to talk about that?

Mr. **Barker**. I could reply. The first part, if I understood your question, is because of the difference in increases in various parts of the country, would this proposed program have a tendency to be a penalty to those if they chose to participate?

I think one of the very good points of this dairy compliance program is it provides a voluntary compliance on the part of the producers. In the areas where they have increased more, a greater reduction would be needed to bring a producer into compliance. In parts of the Southeast and other high class I markets where increases have not been so great, it would also provide an avenue where they would not need to cut back that much to avoid the reduced price on excess marketings. Therefore, it might be likely that those farmers would not reduce below their history because of the needs of those markets.

So I think at least one part of the answer to your question is I think it does provide that mechanism, to adjust production in the country and yet allow some freedom for family operations or very large operations to supply those markets where they need more milk.

Senator **Cochran**. There was some indication, I think in testimony before the House, where hearings were held recently on this subject. I think the anticipated cost of administering the federation plan was $767 million.

In arriving at that number what assumptions were made about the percentage of producers who will reduce production and how many will continue to increase production? Some assumptions and some projections, I am sure, had to be made in order to come up with a cost of administration. I just wonder what those assumptions were. Do any of you know?

Mr. **Barker**. I would turn that to the economists from the federation who are here. They did make these assumptions and we followed them, assuming they are accurate.

Mr. **Healy**. Mr. Chairman, we did indeed make assumptions which we published in our paper on this matter. And these assumptions were made not merely by my staff but by a group of economists working in the dairy marketing field.

We had assumed that 35 percent of the producers would reduce their production about 20 percent below their history level; that 15 percent of the producers would keep their production at their marketing history; and that half the producers would increase their production about 8 percent over the marketing history.

We have published those assumptions and have really received no adverse comment on them. They are generally accepted within the dairy agricultural economic community.

These are reductions or increases above the 2-year marketing history.

Mr. Chairman, can I refer to your question to Mr. Barker?

Senator **Cochran**. Yes, to the question about the attractiveness of the program among regions. Differences in production history and recent increases are dramatic in some areas.

Mr. **Healy**. As a matter of fact, the producers in the Southeast have not been the major transgressors in the development of this surplus. Between the base years and our estimates for the current year, your production there will increase minimally, less than 1 percent. We have constructed this program so that, if your producers decide to do so, the program can pass them right by; if they choose to do just as they are doing now, there will be little or no effect in the Southeast.

The producers in areas where production has risen dramatically—and I believe you are correct again that in the mountain regions the production increase has been most dramatic—in order for them to take part in the program, before they can receive these rewards, they will have to cut most dramatically.

So we do believe that we have assigned financial responsibility in the areas where production increases have been more dramatic, that we have provided a way for regions which have not increased their production so greatly to just let the program pass them by, if they choose.

Please understand, Mr. Chairman, that your numbers and ours relate to regions and there may be dairy farmers within those regions who do not conform to the regional pattern. But quite honestly, in the Southeast, if it chooses not to participate, it will have a program just as today's program on a regional average basis. Other areas, where production has increased more dramatically, will be hit more heavily.

I think Senator Boschwitz would be first to say that, while the upper Midwest takes a lot of the heat for this increase in production, the production increases there have not been equal to the national average.

Senator COCHRAN. I have seen some figures which indicate that if you had a herd of 150 milk cows and you were going to participate in this plan and reduce your production by 30 percent, 150 cows will produce 2 million pounds on an annual basis under your plan, this person could receive a cash payment of $60,000 in a year.

Do you anticipate questions being raised in Congress about a limitation or cap on the total amount a farmer could receive under this program? We have a $50,000 a year payment limitation on deficiency payments to individual farmers. Do you anticipate any effort by members to limit payments to dairy farmers?

Mr. HEALY. We have applied that in the program for consideration by the Congress by putting a limit on the amount of reduction that any one farmer can effect. We say 30 percent. We fully expect that the committee will look very carefully at that number so that a farmer could only be paid for reducing his reduction by 30 percent. If he reduced more, he would only be paid for up to 30-percent reduction.

Since CCC does not buy milk from farmers but rather from the plants to which they sell their milk, it would be very difficult to trace a Government payment, Government cost for products through to the farmer. This, of course, affects him directly. You could control that by changing that 30 percent number to 40 percent or 20 percent if you choose, but it is flagged in the program so that it sits there for your consideration, yes, sir.

Senator COCHRAN. Will there be a system for auditing producers who claim payments for reduced production?

Mr. HEALY. Yes, sir.

Senator COCHRAN. If so, who will be making these audits?

Mr. HEALY. The first audit is made by the county ASCS office. It must be assured that the producer has done what he claims he has done. The final audit, of course, is vested in the Secretary of Agriculture so that he has authority in the law to step in at any point and look at what is going on.

But we thought the very best place to put this was with the county ASCS offices because they first comprise the neighbors of the farmers who are making application and are pretty well aware of what is going on in their own local areas.

These are two or three steps. The producer would have to certify that he had done it. His plant would have to sign off. Yes, that is all the milk that we have received from him. He would take those papers to the ASCS office and the ASCS office would verify them and validate them. He then sends it to whichever disbursing office is designated by the Secretary of Agriculture which has another chance to look at it before he gets his check.

Senator **Cochran**. Do you have an estimate about the cost of compliance checks and audits? Is that included in the $767 million cost of administration?

Mr. **Healy**. Yes, sir.

We have used the same overrun that CCC now uses for audit and compliance in their current purchase program.

Senator **Cochran**. It took about 6 months for the Secretary to implement this 50-cent assessment following its passage by Congress in the reconciliation process last year. It seemed to be a fairly simple kind of assessment, referred to as a milk tax. It just imposed a milk tax of 50 cents a hundredweight.

If it took 6 months to implement, how long do you think it would take to implement a plan which is much more complex, such as the proposal the federation is making?

Mr. **Healy**. Well, certainly, it should take no longer. I was really astounded that it took the Department of Agriculture as long as it did to implement the other one.

I really believe, Mr. Chairman, that it would be possible to put this into operation within 2 or 2½ months.

Senator **Cochran**. Within 2½ months?

Mr. **Healy**. There is no reason for it to go beyond that.

Senator **Cochran**. Senator Heflin has joined us. We appreciate your being here. This is a panel of organization representatives testifying in support of the Milk Producers Federation plan.

Can we recognize you for any statements or comments or any questions you might have?

Senator **Heflin**. On the next panel.

Mr. **Healy**. I have been reminded that with reference to your question on payment limitation, one vast difference in this is the farmers are putting up the bulk of this money through the reduced price on surplus marketings. The major part of the money will come from farmers themselves. So the payment limitation should not be as binding in this instance.

Senator **Cochran**. You would have available a different argument, a better argument for no limitation base that would be available to others in the commodity programs.

Mr. **Healy**. That is correct.

Mr. **Townsend**. Mr. Chairman, if I could, I would like to respond to your regional question.

It seems to me that there have been a couple of things throughout history that have made this country great. One of those things is free trade among the States and areas of the country. We absolutely do not have any borders and that is great, and we can recognize all kinds of comparative advantage in terms of production and consumption. I think everybody would agree that it is one of the big things.

One of the other things, I think, that has made this country great is the acceptance of the will of the majority. We do that fairly readily and I think that is one of the big problems in many of the developing countries. They just flat do not accept the will of the majority. The local minority seems to bear arms at times, so to speak.

So with those two things in mind, I would like to think that the milk price support program is a national program. It is a national program that affects all dairy farmers because it is the basic price and you might even say that it is a minimum basic price similar to a minimum Federal wage law.

And, sure, we have very regional differences, in milk and all kinds of other commodities. But the one basic thing that we have had over the years is a milk price support program.

Now on top of that milk price support program, we have had all kinds of regional programs. We have had State programs and we have had Federal milk marketing orders which have provided different prices in all different sections of the United States and they functioned well. But throughout that time period we have always said that milk and milk products are free to move from one area of the country really to any other area of the country, providing they meet the health standards and they are good wholesome products and relatively free, after the Lehigh Valley case, in the movement of milk and dairy products throughout the country, and that there is not any real regionalism or should not be any real regionalism in terms of the milk price support program.

It seems to us that dairy products—and we represent both long and short areas from Texas to Minnesota—that we ought to think that the milk price support program is the basic undergird for all milk prices in the United States. If the milk can be produced in one area and can move to another area and be more economical, then all citizens of this great country benefit from that. I think the facts are that the differences in the cost of production in one area or the other have logically led to a high utilization, particularly in the South, Southwest part of the United States, because it costs a little more to produce milk and, therefore, you have higher class I differentials, higher prices for milk to consumers, and that has pretty well balanced out the situation.

We sure hate to see anything that was developed that would provide a regionalism to the basic price support program, which has undergirded all milk prices in the country.

Senator COCHRAN. I was wondering in connection with that, what the likelihood of participation would be compared region by region? If I understood Mr. Healy correctly, he left the impression with me that many dairy farmers in the Southeast would not be affected one way or the other by this program. I am assuming that means that they will not participate in it. Does this mean they will not make a contribution to the promotion plan?

Mr. TOWNSEND. Not only the promotion plan but the——

Senator COCHRAN. They will not vote for that?

Mr. TOWNSEND. I think it depends upon, as I view that, and Mr. Healy ought to answer it for himself, I guess—but as I view that, it seems to me that it depends on what your options are.

Now if we are looking at an option of a milk price support cut of $1 a hundredweight, as an example, versus a dairy compliance program, then it seems to me that there is not much difference. There is only an opportunity for dairy farmers in the Southeast to either take a sane $1 a hundredweight in milk price support drop that everybody else would because that would happen over some time. There is not anything that would prevent that. Or they could implement a program, a dairy compliance program, that would cost them no more than $1 a hundredweight. So that is absolutely the maximum because that is what we propose in the law, that there would be a maximum of no more than $1 a hundredweight reduction.

So if that is the maximum reduction, then the only option is something less than $1 a hundredweight cut. And for a very typical dairy farmer in the Southeast, if he did no change in terms of his production from what he had in the past, there would not be any impact on him whatsoever. He would get the same dollars as he has in relation to a milk price support cut.

But with the dairy compliance program, if it does impact, which we honestly think that it will provide the incentive for certain dairy farmers to cut their production, then the dairy farmer in the South will benefit by the total relationship of milk production and consumption that will improve and, thereby, his prices over time will stand a better chance of increasing, as well as every other dairy farmer.

Senator COCHRAN. The costs of production obviously are going to be higher this year, as we have heard, than they were last year. Are there any projections being made now by the federation or any of your organizations about the impact that these increased costs are going to have on production?

Mr. TOWNSEND. Our group sometimes makes the projections and we have for this next year, and the only problem with the current increase in cost of production of milk is that it is too soon. At least to the dairy farmers that I have talked to, it is too soon to tell. And the reason I say it is too soon to tell, they have to look at this cost increase in relation to what is going to happen to the price of the product that they sell, milk. So they are very much interested in what your subcommittee is doing.

Senator COCHRAN. What if nothing happens and you have the $13.10? Is not that the current price?

Mr. TOWNSEND. If you continue on with the present program and you have an increase in the cost of production, there will be a slight decrease in the production over time.

It depends more not on what the reality of the situation is. It really depends upon what farmers perceive. It is never actuality or reality; it is what people perceive.

Senator COCHRAN. It is kind of like politics.

Mr. TOWNSEND. It is kind of like politics.

If farmers perceive that there is going to be a cost price squeeze, they are going to reduce production. Some of them are going to go out of business. And if they perceive the dairy farmer is going to be more profitable than producing hulls or corn or beef, there is going to be more milk production.

So at this point in time, I do not think there is anybody who can give you a good answer to that question.

Senator COCHRAN. Thank you very much.

You have been a big help to the committee and we really appreciate your being here and helping us with your testimony.

Our next panel is Albert McDonald, commissioner of agriculture, State of Alabama; Bucky Jones, testifying for Dairymen, Inc.; William Boardman, representing Dairy Farmers, Inc.; Herb Forest, representing the Alabama Farm Bureau Federation; and Rich Trawick, testifying on behalf of Southern Milk Sales.

Could you please come forward?

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Mr. Chairman, I am pleased that we do have a number of Alabamians here today. They are all outstanding people in their particular field of endeavor. I would like to pay particular attention to one gentleman who is an elected official, Albert McDonald, our commissioner of agriculture and industries for the State of Alabama. He is no stranger to this committee, a former president of the Southern Cotton Growers, Inc. He has testified before this committee on numerous occasions.

Today, Commissioner McDonald will express the views and sentiments of the dairy farmers of Alabama, relative to needed changes in the current dairy law and particularly he will express his concerns over the pending system of deductions from dairy farmers' marketing of milk as a means of defraying a part of the cost of the dairy price support system.

This system, if implemented, will work a severe hardship on the dairy farmers of Alabama. In addition, it will be counterproductive to other milk-deficient States in the Southeast and elsewhere in the Nation, which I understand there is a total of more than 35.

Obviously, this committee and, in fact, the Congress has reached the point where we must devise creative solutions toward reducing the high cost of the dairy price support program caused by purchases of surplus dairy products by the Commodity Credit Corporation.

Commissioner McDonald is a member of the National Association of State Directors of Agriculture. Recently, the board of directors of this very prestigious association adopted a resolution favoring a dairy program which would rescind the appending assessments with lower support prices and would place a floor on fluid class I milk. The association's resolution also offers a possible long-term solution to the dairy surplus program with a proposed adjustable support prices based on level of surplus production.

The dairy farmers of Alabama are strongly opposed to the pending assessment. They recognize, however, that the only fair and equitable way to bring supply in line with demand nationwide is to make needed adjustments in the support price level.

I commend our distinguished commissioner for taking time from his busy schedule to travel to Washington to present the case for our Alabama dairy producers. Also in attendance this morning is Dr. Wilson of Auburn University who is a recognized authority on the economics of the dairy situation, as well as Richard Trawick, who will be testifying on behalf of the Southern Milk Sales, Inc.

I might tell you a little bit about Commissioner McDonald, other than what my staff has prepared for me. You know that we Senators have to be dependent on staff. But Albert was also a member of the State senate, the chairman of the rules committee in the Alabama State Senate. He ran and was elected as commissioner of agriculture, the primary being in the run off in May. I tried to phone him that night to express my congratulations. The phone was busy, as it normally is with the winning candidate, and so the next day I phoned and got to his wife in the afternoon and she said, "Well, Albert is not in. He is out on a cotton picker working."

So, it gives you some indication that immediately upon his victory that he went back to work. I phoned again that night and I said, "Albert"—I talked to his wife and his wife said, "Why he has gone to choir practice."

So I think it is from a victorious candidate who was elected and immediately who returned to the farm and to the church that it gives you some indication of the type of man that he is.

It is my pleasure to introduce the commissioner of agriculture and the other Alabamians that are here to this committee.

Senator **Cochran**. Thank you, Senator. I am going to have to take a call. I am going to ask that Mr. McDonald proceed. Senator Leahy will be in charge.

Mr. **McDonald**. Thank you, Senator Heflin, for those remarks, and I am going to return that phone call one of these days.

Senator **Leahy**. We have the same problem here in the Senate when we try to call Senator Heflin. Either his wife or his staff usually tell us he is at church, but we just do not believe it.

STATEMENT OF ALBERT McDONALD, COMMISSIONER OF AGRICULTURE AND INDUSTRIES, STATE OF ALABAMA

Mr. **McDonald**. You know politicians are successful when their families are well trained.

Mr. Chairman, I am Albert McDonald, commissioner of agriculture and industries for the State of Alabama. I consider it an honor to appear before this distinguished committee.[1]

Mr. Chairman, the dairy industry is in trouble and needs help. The problem is easy to identify. The solution is a bit more difficult. The support price was set at a level causing production of more milk than needed by the commercial market and the Commodity Credit Corporation has acquired great quantities of supported products. Surplus costs of the large holdings concern dairy farmers and all taxpayers.

It is obvious the 1982 dairy production tax that is about to be imposed on dairy farmers does not recognize the problems and is an unfair and ill-conceived program. It should be abolished immediately. It is also obvious that the 1983 dairy legislation provide an economic setting in which an adequate supply of wholesome and fresh milk at reasonable costs is provided. The production of milk must offer the potential for profit to producers in every area of the Nation. At the same time, price must not be so high as to bring forth an unneeded supply and accumulation of surplus milk products as exists today.

The program that achieves these goals is as follows: One, allow for lowering price support; two, use an economic formula to adjust support price as supply-demand conditions dictate; and three put a floor under class I price to protect milk supplies produced for local fluid milk markets.

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[1] See p. 186 for the prepared statement of Mr. McDonald.

My reasons for supporting this proposal: No. 1, the proposal retains the price-support program. Using supports to undergird milk prices, a formula adjusts support price up or down, depending on the supply-demand balance. The program provides price and income stability to dairy farmers and a consistent and dependable supply of milk to consumers.

Second, we have a need for an immediate cut in the support price of milk. I think it is not necessarily that we would like to recommend this but we apparently recognize that it is probably going to take place.

With a lower price, farmers who produce milk used in manufacturing products purchased by the Government will reduce milk production. With less milk production, there will be fewer purchases by the CCC and lower Government costs.

Third, lower milk prices will result in lower milk product prices to consumers and will cause increased milk product consumption, another advantage for the proposal.

Fourth, a floor would be established for class I prices rather than letting class I prices fall proportionately with a reduction of class III prices. Our dairy problem is not with milk being produced for the class I or fluid market. I must emphasize that.

Dairy farmers who supply that market should not bear the full burden of a price reduction on that portion of milk used in class I products. In Alabama, dairy farmers produce for the fluid market and a high percentage of their marketings is used in class I production, about 83 percent. The maintenance of the class I prices across the country will assure continuation of locally produced fresh milk for consumers.

Some are saying that legislation providing for a cut in the support price is a regional plan and divisive in the dairy industry. That is incorrect. Up until now, the support program has not been regional or divisive. Why is it now when the price needs to come down? The purpose of the price-support program is to provide price support and not a program to establish a price so high as to make the CCC the major buyer of supported products.

And I would like to address my remarks to alternate plans that I have heard proposed. We oppose the dairy compliance program for many reasons. It is a crash program without consideration for the long-run consequences. This program treats symptoms and does not get at the root problem. Implementation of the program will result in one of the largest ever dispersal of cull cows. Over 1 million milk cows will go to slaughter in a few weeks if the program becomes law. Cattle prices will become greatly depressed. The cattle industry does not need to share in this way in dairy problems.

The dairy compliance plan does not provide for milk product price reductions to consumers.

A serious disadvantage of the dairy compliance plan is that it will result in a drying up of local milk produced to supply the fluid market. In Alabama and throughout the United States milk used in fluid products, class I, is produced by local dairy farmers.

With the base plan in the dairy compliance program, it is likely that over 10 percent of the milk supply in the Southeast region will be lost. With a base plan, local dairy farmers will be prohibited from expanded production to fulfill local needs. Also there will be many problems in calculating bases and providing equity of treatment among dairy farmers. I think a lot of redtape will be involved.

As mentioned earlier, it is incumbent on you to draw upon facts to base the new legislation on. In this light I suggest the committee receive and review publications which I have brought with me and I will make them available to you and I wish to be made a part of this testimony.

In summary, the solution to the dairy surplus program is found in: first, cutting the support price; No. 2, providing an economic formula for future adjustments in the support price; and third, establish a floor under class I prices to protect local supplies for the fluid milk markets.

Gentlemen of the committee, that is all that I have prepared at this time. I will respond to any inquiries.

The real motivation behind my appearance is to support a plan which will maintain a nationwide dairy industry. I have seen when changes are made in Federal law as pertains to other products that we produce in the Southeast and when we go to too rigid requirements, the Southeast usually turns out to be the loser. And I am somewhat fearful of any plan that does not allow us to supply our local market the fluid milk, and let our producers supply this market and those who can compete in the area of dairy products, let them compete in that market. That is where the real competition is. That is where the problem lies.

It is for that reason I support the plan that I represent here today.

Senator **Leahy**. Is your region considered in this part of the plan?

Mr. **McDonald**. Well, I think it is secondary that there may be a regional effect. I just think that dairy farmers in any section of the country should have the opportunity to supply their local fluid milk needs.

Senator **Leahy**. Thank you.

Mr. Jones.

Mr. **Jones**. Senator Leahy, if you do not mind, I am from Mississippi and I really do not want to get involved with these Alabama people too much. So if you do not mind, go through the Alabama group and then I will wind up with the State of Mississippi.

Is that an agreeable request?

Senator **Leahy**. That is what our chairman said.

Mr. **Jones**. Well, he is not here. I speak for Mississippi.

Senator **Leahy**. Then why do we not go to Mr. Boardman and then Mr. Forest and Mr. Trawick, and we will come back to Mr. Jones.

Mr. **Boardman**. Well, being from Florida, why do we not go on with the Alabama delegation and then I will join Mr. Jones at the end of this thing.

Senator **Leahy**. All right. Mr. Forest.

Mr. **Forest**. Thank you, Senator Leahy.

It is rather peculiar Alabama being represented by a New Englander. I do not know whether that separates me far enough as it has with Mississippi and Alabama.

Senator **Leahy**. I did not think that sounded quite like an Alabama accent. For one thing, I was able to understand you. I know usually when I am speaking with Senator Heflin, he has to bring along a translator.

Whereabouts in New England, sir?

Mr. **Forest**. I come from Boston, Mass.

Senator **Leahy**. Well, that is southern New England.

Mr. **Forest**. That is so I can associate with Alabama.

Senator **Leahy**. I once was told by a woman who had lived all her life in Vermont—she came from the Northeast Kingdom of Vermont; one of our witnesses this afternoon will also be from there—but she was a lovely lady and I made some reference to some article in the New York Times, and she said, "Young man, up here, we do not put much stock in southern newspapers like the New York Times and the Boston Globe."

But we are delighted to have you here. What has happened, Mr. Chairman, is that Mr. Forest will testify and then Mr. Boardman will testify and Mr. Trawick will, but Mr. Jones wanted to make sure you were back here before he testified.

Senator **Cochran**. I am glad of that. Thank you.

STATEMENT OF HERBERT L. FOREST, ON BEHALF OF GOODWIN MYRICK, PREDIDENT, ALABAMA FARM BUREAU FEDERATION

Mr. **Forest**. My name is Herbert L. Forest. I am recently retired from the Department of Agriculture where I worked on dairy problems since 1933 and more recently was Director of the Dairy Division of the Agricultural Marketing Service.

I consider it an honor again to appear before this committee and I certainly appreciate the privilege which I have to express points of view.

I am appearing, as I said, for Goodwin Myrick, president of the Alabama Farm Bureau Federation.

We have about 2 billion pounds of milk products in Government hands and the amount is increasing. This year, it is estimated that about 14 billion pounds of milk will be produced by dairy farmers in this country, which will have no market except for the Government.

If there is one thing that everyone in the dairy industry can agree upon, it is that we have too much milk and that the amount of milk produced without a commercial market must be reduced. To accomplish this end, we must simultaneously reduce production and increase sales. However, there is little agreement with respect how we could accomplish these two ends.

The main proposals fall into two major categories. The first of these is to hold the present price-support level and put some of the costs on the dairy farmers through a tax assessment. And this tax assessment could be applied with or without some kind of a quota or base plan. Each such plan would allow every dairy farmer who decreased his production to stay within his quota to avoid the assessment.

The second set of proposals attack the problem by reducing the price-support level by some amount. And there are various amounts suggested by each proposal. All would lower the prices, however, that dairy farmers receive for their milk. These programs, if adopted, would also result in lowering the price paid by consumers for dairy products and thus would tend to increase sales.

The Government has been involved in the price of milk through the price-support program for many years, starting even before the Price Support Act of 1949. The price-support programs have served the producers of dairy products and the public well over this period. Our Nation enjoys an efficient dairy industry that provides consumers a high quality supply of milk and dairy products at reasonable prices.

It is unlikely that even those who think the dairy industry would be better off without Government involvement would advocate that now is the appropriate time for the Government to step out. However, at the same time, we do not believe that the Government should get more involved. And such would be the case if the Congress would now establish any kind of a base or quota plan. Not only would such a program be difficult to administer, but more importantly it would eliminate much of the freedom of choice of the individual farmers.

It is critical that any program adopted maintains that freedom of choice for a dairy farmer so that he could manage his own producing unit.

Much of the increase in the efficiency in the production and marketing of milk in this country can be traced directly to that freedom of choice of the dairy farmer to make operational changes. Costs of dairy production in the future are very likely to increase and farmers must continue to be free to adjust in order to increase their efficiency. For the present, a reduction of returns to dairy farmers from present levels must take place until we can get production back more in line with demand.

We would do least harm to our dairy industry—farmers, dealers, and consumers—by adopting the most simple program of Government involvement. That would mean maintaining our present programs at a reduced price support level.

We should not expect that any program is going to solve the present excess supply situation in any short time. No program should be adopted with that expectation in mind. Lowering the price-support level would reduce returns to dairy farmers. Production would tend to drop because milk production would be less attractive for new producers as well as for present producers. Lowered net returns would increase internal competition for scarce resources and capital. Lower prices would mean that the Government would spend less on purchases of dairy products for two reasons: First, the prices for the products would be lower; and second, the Government would be required to buy fewer dairy products. Lower prices would encourage consumers to use more dairy products, particularly manufactured dairy products, such as cheese, dry milk, and butter. Consumers do increase consumption of these products when prices go down.

Studies have shown that we can expect a much smaller reaction from consumers to their purchases of bottled milk when prices are lowered. Consequently, it is our recommendation that prices to dairy farmers for milk going into fluid consumption not be reduced at the present time. Minimum prices to dairy farmers for class I milk under Federal milk orders have been for some time below the equivalent of the presently announced support level of $13.10 and would remain that way under our proposal.

Dairy farmers in all sections of the country have long accepted the fact that if milk is produced over and above that needed by consumers for fluid consumption, that they would have to take a lower price for that excess production. It is difficult for most dairy farmers to understand why the price of their milk used in fluid consumption must be reduced when they are told that consumers will not increase milk purchases significantly in response to lower milk prices.

The differential which dairy farmers have received for that part of their milk used for fluid consumption over that part which they have received for their milk going into manufactured dairy products has not increased since 1968. Thus, an increase in that differential at this time would not create any distortion of milk prices throughout the country and would not introduce any marketing problems.

In fact, it has been suggested by many people in the industry that the class I differential should now be increased. Also, in many parts of the country, where there are no Federal milk orders, prices for milk going into fluid consumption would not automatically decrease with a drop in the price support level. Most States, which have State milk control agencies, do not relate their prices for milk going into fluid consumption to the level of the price support program.

This same situation would prevail in those markets where there is no State or Federal regulation. Even in some markets with Federal milk orders, attempts will surely be made by dairy farmers to maintain their fluid milk price through over order pricing. By maintaining the fluid milk prices in Federal milk orders, all dairy farmers throughout the country would tend to be treated more equally with respect to the prices that they would receive for that use of milk than if the class I prices for Federal orders were reduced along with the support prices.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much.

We are really happy to have Mississippi so well represented at today's hearings—Morris Lee Scott from Hernando and Bucky Jones from down in the Pike County area of our State. Mr. Jones is a widely respected leader of the dairy industry in our State, a fine citizen. We are happy to have you here and thank you for coming. You may proceed.

STATEMENT OF BUCKY JONES, REPRESENTING DAIRYMEN, INC., SMITHDALE, MISS.

Mr. JONES. Thank you.[1]

My name is Bucky Jones. I am a member of the board of directors of Dairymen, Inc. I live at Smithdale, Miss. If I talk too fast for some of you people, you just raise your hand and I will slow it down a little.

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[1] See p. 191 for the prepared statement of Mr. Jones.

I own and operate a dairy farm. We have approximately 200 head on test. And I feel like that I have some, I hate to say, expertise in the field, but after you have been in the dairy business since 1954, in a roundabout way you do feel like you know a little something about your neighbors and friends. I feel like that I can speak for my neighbors and friends in Mississippi.

I hate to belabor the point, but it disturbs me to hear the North/South issue, the regional issue expanded here. I am well aware that we lost that war 100 years ago, and we have lost it every time we fought it over in our minds. So I do not want to get into that and I will assure you that we in the South are not trying to come up with a program that is just tailor made for us. We know we have a surplus problem in this country and we know we are part of it.

To reiterate this point, I can tell you that 2 years ago we in Dairymen, Inc., started a program to try to reduce surplus milk, tried to reduce our problem. In fact, we had what we called a management efficiency program 2 years ago that sent 22,000 extra cows to market in 1 month's time. Just a year ago we had another base plan program, where here again we were trying to reduce our surplus problem.

We know we have a problem and we are willing to work with any of those who will come to the table in good faith to try to work it out. I think that this should be always in all of our minds that we are men of reason and we will in fact try to work our problems out.

But our milk surplus situation has reached scandalous proportions and I think most everybody knows that. You know, the Secretary of Agriculture said in Kansas City last year that it was a national disgrace. At the time, it really hurt me because I thought we had a lot more national disgraces that he could talk about rather than the dairy program.

But I must say that we are strongly opposed to the tax bill that we have now. We feel that is an undue tax on dairy farmers that would generate something over $1 billion of taxes on dairy farmers and, you know, the Boston Tea Party was fought over, what, $20,000 in taxes, and here we are talking about over $1 billion to our dairy farmers. We think this is unfair, but we do still emphasize the point that we know we have a problem.

We also must oppose the implementation of a base plan or quota system. And you may ask why? I can tell you why in Mississippi. If you implemented a base plan in Mississippi whereby you paid $10 per hundred up to 30 percent of the milk, you would get 30 percent of the milk and then who would supply the market? I think it is a better plan to pay our producers in that market, in the area to produce, especially for the class I market in that area, because you cannot produce it in Timbuktu and ship it to New Orleans, La., cheaper than we can produce it there. There is a different story when you are talking about class II and III products that are storable and can be hauled long distances.

But fluid milk is something that is hard to handle in bulk over long distances and keep the quality in line with what you want.

We feel like it would be more rational and a much simpler approach to solve the surplus problem. We think that lowering the milk support price by $1 would discourage surplus milk production just as much as $1 tax and yet it would do two different things that the $1 tax will not do.

Senator, you are aware if we throw $1 billion into the budget, as the tax would do, what percent of that do you think the consumers would get the benefit of? If we lower the price-support program $1 the consumer would get the benefit of the entire $1 and we would not have another layer of bureaucracy.

We think it would encourage consumption of more dairy products because the price the consumers would pay would definitely decline. We think we would have less dairy products because we, as dairy farmers with a dollar cut in support price, would reduce production. It is pure and simple. I agree with the Secretary of Agriculture on one thing, that it is a myth to say that if you lower the price, that you are going to get increased production. I think the Secretary of Agriculture is right on that, and I must say that is about the only thing I agree with him on, but I do believe he is right. It is a myth to say that if you lower the price, you are going to get increased production. In Mississippi, if you lower the price, you are going to get less production. And, Senator, we do not need less production in my area, especially in the fall we do not even have enough milk to fill the needs at that time.

The Secretary of Agriculture recently pointed out that the dairy price support program has functioned very well since 1949 up until 2 or 3 years ago. And I think that the point has been made here several times this morning by different people. So we do not want to drastically change a program that has worked well, but we do want to modify it where we can maintain the program, because we certainly do not want to lose the program overall.

The dairy price support program has, in fact, executed objectives. What are those objectives? No. 1, I think it is to provide a stable supply of milk to the consumers. And the program has done that, and it also was to give our dairy farmers stability in their market, and I think it has done that. The cost of the program has, indeed, gotten out of hand and most all of us recognize that. Just small amounts of surpluses can really ruin a local market. Most everybody in the market, in the business, will agree that the man that controls the surplus basically controls the market. So small amounts of surpluses can indeed disrupt our market. And when you have got 10 percent like we have now, it really can cause problems that none of us could withstand.

Another reason that we oppose the quota plan is that in our area we are producing an even smaller share of the country's milk supply and yet in our area the population is growing. Yet our area has a tremendous promotion program that has tended to cushion us from the decline of the economy and reduced sale.

So, you know, it is hard for us to understand why we should take such a tremendous drop in price when, in fact, our area has a market. It has a viable market. We are not in the business to sell to the Government, and that may sound foolish to some of you, but the only class II or III plants in the South are basically just there to handle the surpluses. We have got a tremendous powder and cheese plant in Franklinton, La., that has the capacity of 1½ million, 1.8 million pounds of milk per day. June, July, August, September, and October, this plant will stand idle. We do not have the milk to put in and yet we have to have it to handle the surpluses across the South. But we are not in the Government cheese business.

If we could tailor-make our production to the class I market, we would do it, but it is very difficult to do.

On my testimony here, I have got an exhibit that I would like for you to look at. It shows the total production in our area of the Nation as a whole. It shows that we, as a percent of the total U.S. production from 1973 to 1982, that we are basically holding our own in a few States, but in some States we have dropped significantly, especially in my own State of Mississippi and the State of Louisiana, which I represent on the Dairymen corporate board.

A base plan, a quota plan on top of the economic conditions that we have now would present a very serious problem. It makes more sense to us to encourage milk production where fluid milk demand is and where the population is growing, where the market is, where the viable market is, not a market where you can sell to the Government, but where the consuming public will take your product and use it. You have not done anything until you have sold your product. And that is what we, as dairy farmers, must know and must realize.

There is no doubt that the current milk surpluses are encouraged by abnormally low feed prices and beef prices. I think all of us know that the milk surplus situation is not an entity in itself. It is the result of many other things.

We are hopeful that maybe the payment-in-kind program would, in fact, improve the feed prices to those who sell feed and would discourage milk production in some areas whereby we could get our production back in that line.

Another issue I would like to direct my remarks to is that of holding class I prices used in Federal milk orders at current levels. Numerous studies done in past years have shown that lowering the price consumers pay for fluid milk has relatively little effect on consumption levels. On the other hand, reduction in consumer prices for other manufactured products, along with the advertising programs that we have, will significantly increase consumption of cheese.

Cheese should be stored; fluid milk cannot be stored.

Another reason to hold the minimum fluid milk prices close to their current levels in my part of the world, particularly in more usual times, we do not produce enough milk to supply the needs of our consuming public in our area. In much of the Southeast, the Southwest, milk production is insufficient to meet fluid demand in months when production is at seasonally low levels, namely in the fall—September, October, November. Lowering class I or fluid milk prices in these areas would further encourage a decline in our local production and, in fact, in our local agricultural sector as a whole. Milk would have to be imported hundreds of miles to fill local demand and milk is relatively expensive to move long distances.

There was a time when differentials were set up and the differential in class I price from New Orleans to the Minnesota area, the

Minnesota-Wisconsin area, had been $2.85 for years and years and years. Ten years ago, the support price represented some 60 percent of what our blend price was in the South. Now, the support price represents something over 85 percent of what our blend price is.

So, what I am saying is that the differential between your fluid milk market and your cheese market, your class II market has narrowed to the point that it is almost indistinguishable at times. So I think that we definitely need to move the differential and this would be one way of doing it.

As you know, the cost of transporting milk from Wisconsin to New Orleans, Louisiana is certainly more than $2.85 a hundred. I would suggest that it is probably more like $5.

There are a few areas in the country within which milk price is not subject to pricing under Federal orders. Fluid prices in these areas could be held at current levels by State regulations or farmers in these areas could petition the Secretary of Agriculture for a Federal milk order.

I would like the subcommittee to include in the record the data contained in "Costs and Returns of Producing Milk in the United States—1979, 1980 and Preliminary 1981", which was prepared by the Department of Agriculture. It shows that there are substantial differences in dairy farm returns and costs of production among regions in the country.

Now data from Mississippi is not included in this study, but I do have a study, a previous study to this. It shows Mississippi and Florida, Florida being a high cost production area in the United States, my area of Mississippi and the parishes of Louisiana were second as far as cost of production. There is a differential in the cost of production in this country, but I suggest that the Appalachian region that is shown in that study, Senator, shows 70 cents return per hundredweight in Appalachian region and our region would be very little different from them.

I would like also to attach as exhibit II a copy of the "Impact of Changes in Support Price on U.S. Milk Supplies and Utilization," which was prepared by Dr. Al Ortego and John Smith of Dairymen, Inc. They are economists for Dairymen, Inc.

It shows that a decrease in the price support will result in a significant increase in milk consumption and decrease in milk production. If the subcommittee has any questions on that line, I would like to refer you to Dr. Ortego for those answers and he could supply those.

I would like to thank you, Senator, for your concern of our dairy industry in holding these hearings. I think that it is time that we get on with something, to do something. Franklin Roosevelt promised us four freedoms some 50 years ago and one of those freedoms was freedom from fear. I think our dairy farmers are totally engrossed by fear now. We need a direction and we need it quick. We can rectify our problems if given the opportunity. We look forward to working with you, Senator, and the others in trying to come to grips with this problem that we know and realize has to be done. We certainly hope that it can be done quickly.

Thank you, sir.

Senator **COCHRAN**. Thank you very much for the excellent presentation you made to the committee.

We have not heard from Mr. Trawick.

STATEMENT OF RICHARD TRAWICK, MANAGER, SOUTHEAST DIVISION, SOUTHERN MILK SALES, INC., MONTGOMERY, ALA.

Mr. **TRAWICK**. Thank you, Mr. Chairman, and, Senator Heflin, good to see you here this morning.

I am Richard Trawick from Montgomery, Ala., and manager of the Southeast Division of Southern Milk Sales, Inc.

Southern Milk is a regional cooperative with the home office in San Antonio, Tex. Members of the co-op are located in Texas, Oklahoma, Missouri, Arkansas, Louisiana, Mississippi, Alabama, Florida, Georgia, North Carolina, Tennessee, Kentucky, Ohio, and Pennsylvania. I am appearing here today to convey their feelings, as well as that of many dairy farmers across the United States.

We recognize the oversupply problem that exists in the Nation today and will not ask or expect any legislation that is self-serving. There are two major areas of concern in dealing with the present problem: Dairy farmers and consumer-taxpayers. Our dairy farmers are dedicated to supplying the consumers in their region with fresh wholesome milk at an economical cost.

The question immediately comes to mind: How can this be accomplished? First, the Federal order program, as well as price supports, were designed to maintain a fresh supply of fluid milk. These programs have worked for many years and will continue to work if given the opportunity. Supply and demand must be a major determinant when establishing a support price level.

For the past 4 years two factors have greatly influenced milk production. The support level has been too high and grain prices have been too low. The result has been production in excess of demand and we feel strongly that a reduction in the support price is the best method to reduce excess production while maintaining the integrity of a price support program that is effective.

No area of the country has a precisely balanced supply of fluid milk to match the consumer demand. However, our region is not unique in that the supply versus demand for fluid milk is in relative good balance. Many other regions of the Nation reflect a similar balance.

The enclosed chart shows an increase in production of 3.2 percent from 1978 to 1982, and this is the period we have gotten into the mess. While the Nation as a whole increased 11.7 percent, at the same time the population increase in the Southeast more than doubled the national average from 1970 to 1980. We had a 24 percent increase in the Southeast and the Nation increased 11.4 percent in the 10 years.

[Charts I and II follow:]

CHART I.—MILK PRODUCTION BY REGIONS, UNITED STATES, 1978 AND 1982

Region	Billion pounds			Percentage change
	1978	1982	Volume change	
Northeast	24.8	27.4	2.6	10.5
Lake States	35.1	38.8	3.7	10.5
Corn States	15.6	16.7	1.1	7.1
Northern Plains	5.1	5.5	.4	7.8
Appalachian	8.2	8.8	.6	7.3
Southeast [1]	6.3	6.5	.2	3.2
Southern Plains [2]	5.3	5.8	.5	9.4
Mountain	5.4	7.1	1.7	31.5
Pacific	15.6	19.0	3.4	21.8
Alaska and Hawaii	.2	.2	0	0
United States	121.6	135.8	14.2	11.7

[1] Includes Alabama Florida, Georgia, Louisiana, Mississippi, and South Carolina.
[2] Includes Arkansas, Oklahoma, and Texas.

Source.—Milk Production. SRS. USDA.

CHART II

	Population number		Percentage change
	1970	1980	
Southeast (6 States)	23,276,046	28,983,136	24.3
United States	203,302,031	226,504,825	11.4

Mr. TRAWICK. We also have a chart to show that approximately 80 percent of the production in our region goes for fluid needs. All this supporting information indicates we do not need to lose any production in our region. If a base plan or dairy compliance program, as proposed, is adopted, we anticipate a loss of at least 10 percent of the production in the region. This will dictate movement of a considerable amount of milk from the Midwest to the South.

The impact of consumers in our area is shown in the following table, and I want to direct your attention to that table for a moment. The mileage that we have used here in the selected markets came from the Household Movers Guide. The hauling rate was computed on this mileage and it was given to me out of Wisconsin at $1.60 a loaded mile and I might say that is about 20 or 30 cents a loaded mile less than it has been in the past.

[The table follows:]

Market	Mileage from Eau Claire, Wis.	Hauling rate per cwt	Delivered price per cwt	Effective local price	Additional cost per cwt	Increased cost per gallon
Atlanta	983	$3.50	$18.75	$16.05	$2.70	$0.23
Columbia	1,070	3.80	19.05	16.15	2.90	.25
Jackson	996	3.54	18.79	15.60	2.19	.19
Louisville	597	2.12	17.37	15.15	2.22	.19
Miami	1,631	5.80	21.05	17.20	3.85	.33
Montgomery	1,024	3.64	18.89	15.73	3.16	.27
Nashville	750	2.67	17.92	15.30	2.62	.23
New Orleans	1,131	4.02	19.27	16.00	3.27	.28
Orlando	1,408	5.01	20.26	17.20	3.06	.26

So, we can see that, for instance, to Atlanta, Ga. it would cost $3.50 a hundredweight to haul the milk in. The price quoted me in Wisconsin is from a supplier that we have used many times in past years, and he gave me a price of $15.25 FOB Wisconsin.

Senator **Cochran**. Which chart are you referring to now?

Mr. **Trawick**. Senator, on the second page there of the testimony. It is within the statement.

Senator **Cochran**. OK. Sorry.

Mr. **Trawick**. So, if you add these hauling charges of $3.50 plus the $15.25 price quoted in Wisconsin, we can see that we have got a delivered price in Atlanta, Ga. of $18.75 a hundredweight.

The local price in Atlanta today is $16.05 a hundredweight, which is $2.70 above what the producers are producing the milk for today.

Now if you look right below there you can see that this milk will cost the consumers in Atlanta 23 cents a gallon more than what the producers are furnishing it there today for.

You can go down the chart here and see that the highest increase would be in Miami, Fla., 33 cents a gallon, and the lowest increase would be in Louisville, Ky., and Jackson, Miss., which is 19 cents a gallon.

This certainly will have an impact on our consumers in the area and I know there has been talk about regional programs. We feel that this will regionalize our consumers.

By lowering the support price, our farmers will be in a position to compete for sales in their region. The base or dairy compliance program will take this opportunity away. It will force them to cut needed production which in turn contributes to inefficiency and discourages productivity. And that is something certainly not what we need in America today.

[Charts III and IV follow:]

CHART III.—CLASS I UTILIZATION IN SELECTED MARKETS

	1982										1983		Average
	March	April	May	June	July	August	September	October	November	December	January	February	
Alabama to West Florida [1] order No. 93	N.A.	N.A.	79.88	79.07	83.84	86.22	89.91	91.87	89.72	81.92	84.94	83.10	85.05
Georgia order No. 7	69.49	71.37	72.19	72.87	78.47	81.33	82.17	78.19	77.69	70.60	71.09	72.07	74.79
Greater Louisiana, order No. 96	82.90	81.27	79.19	83.05	84.47	84.39	86.90	85.32	87.30	81.75	81.86	82.59	83.42
New Orleans-Mississippi order No. 94	56.43	55.06	60.74	64.57	66.77	71.58	80.49	80.58	77.28	63.69	64.28	61.38	66.90
South Carolina [2] State Dairy Commission	75.23	74.68	80.43	74.46	77.86	81.94	81.22	79.14	77.07	72.15	80.51	N.A.	77.70
Southeast Florida order No. 13	87.95	89.75	84.51	87.68	96.18	93.41	90.57	92.10	92.41	86.97	88.26	88.48	89.86
Tampa Bay Florida order No. 12	86.32	86.89	81.62	87.73	94.27	91.75	89.39	90.22	91.72	84.88	84.56	87.10	88.04
Upper Florida order No. 6	81.34	84.36	84.54	87.73	93.45	92.24	90.98	91.61	91.90	87.84	87.22	88.00	88.43

[1] Federal order No. 93 implemented May 1982.
[2] Source.—South Carlina Dairy Commission.

Source.—Federal orders 6, 7, 12, 13, 93, 94, 96 Market Statistics.

CHART IV.—TABLE 11. TOTAL MILK PRODUCTION COSTS AND RETURNS BY SELECTED COST AND RETURNS ITEMS, BY REGIONS AND THE UNITED STATES 1981[1]

[Dollars per hundredweight[2]]

Item	Northeast	Upper Midwest	Corn Belt	Appalachian	Southern Plains	Pacific	All regions[3]
Gross revenue	15.28	14.88	14.69	15.19	15.87	14.40	14.97
Direct costs	9.27	8.28	9.57	11.02	11.16	9.88	9.28
Revenue above direct costs	6.01	6.60	5.12	4.17	4.71	4.52	5.69
Ownership costs (RITI)[4]	3.70	4.17	4.36	3.47	2.98	2.46	3.72
Total direct and ownership costs	12.97	12.45	13.93	14.49	14.14	12.34	13.00
Returns to producer[5,6]	2.31	2.43	.76	.70	1.73	2.06	1.97

[1] Preliminary.
[2] Hundredweight of milk represents all milk sold and consumed on the farm.
[3] Weighted average.
[4] Replacement reserve, interest on borrowed and equity capital, taxes, and insurance.
[5] Residual returns.
[6] Returns to equity capital are included in ownership costs.

Source.—Costs and Returns of Producing Milk in the United States—1979, 1980, and Preliminary 1981, prepared by ERS, USDA, for the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, July 1982.

Mr. **Trawick**. We feel that the present Federal order class I price should be a floor for class I or fluid sales. This must be done because of the disparity of net returns to producers in different zones. Chart IV shows a 70 cents per hundredweight net return to producers in our region while average was $1.97 a hundredweight. Class I prices can drop substantially, even with the floor, as the following table indicates.

[Price per hundredweight]

Market	Federal order class I	Effective class I	Over order
Atlanta	$14.92	$16.05	$1.13
Chicago	13.88	14.64	.76
Denver	14.92	15.59	.67
Houston	15.30	16.07	.77
Miami	15.77	17.20	1.43
Montgomery	15.07	15.73	.66
Nashville	14.47	15.30	.83
New Orleans	15.47	16.00	.53
Orlando	15.57	17.20	1.63
Pittsburgh	14.57	14.98	.41
St. Louis	14.22	15.01	.79

Mr. **Trawick**. We see that the over order price is, for instance, in Atlanta is $1.13. Now this was March prices. We can see that these prices are considerably higher in these selected markets. Denver, Colo., 67 cents; Montgomery, Ala., 66 cents; Orlando, Fla., $1.63. The lowest amount here is Pittsburgh, Pa., 41 cents. Class I prices in these regions can drop this amount even with the floor that we are asking for in this program.

The floor will help stabilize market prices and needed production and also leaves room for the consumers to receive a break. The established floor would not move. It would, therefore, provide a element of stability and fluid milk price over short term.

Next, the number of manufacturing facilities, as Mr. Jones has just alluded to, that received excess grade A milk is declining rapidly in the Southeast. The reason that they are declining is that there is not enough milk available to keep their doors open. We can easily visualize in the near future excess loads of weekend milk going to Ohio and Pennsylvania and, of course, this is not conducive to hauling milk north.

Next, much has been said about what impact the lowering of support prices will have on commercial stocks. We have a chart included here, No. V, that shows that commercial stocks are presently at the lowest level they have been in several years. It also shows that the period 1979 to 1981 was a time when manufacturers were willing to accumulate large stocks to their advantage; support prices were increasing.

[Chart V follows:]

CHART V.—TABLE 22.—U.S. DAIRY PRODUCTS STOCKS, OCTOBER 1

[In millions of pounds]

Item	1980	1981	1982
Commercial:			
Butter	43.7	31.9	23.0
American cheese	422.7	374.5	308.3
Other cheese	112.4	95.7	100.4
Nonfat dry milk	76.2	87.2	89.8
Milkfat	216.7	185.1	159.3
Solids, not fat	259.3	247.1	233.9
Milk equivalent, fat solids basis	6,116.3	5,255.2	4,475.5
Government:			
Butter	259.3	457.6	499.1
American cheese [1]	143.0	511.9	802.5
Nonfat dry milk	523.2	721.8	1,150.3
Milkfat	254.8	533.2	595.8
Solids, not fat	547.4	853.7	1,292.4
Milk equivalent, fat solids basis [1]	6,768.1	14,558.2	16,260.3

[1] Does not include processed American cheese stocks held by CCC.

Source.—Dairy Outlook and Situation—USDA DS391, December 1982.

Mr. **TRAWICK**. Inflation increased the value of inventory at a very rapid pace. Today's stocks are at a 9-year low, indicating that inventories are already adjusting to an anticipated lower support price.

In summary, we urge you to adopt a long-range program and not a temporary or crash program. This can be done by an immediate reduction in support prices, an economic formula triggered by CCC purchases and a floor under fluid sales. Under this proven program, farmers have an opportunity to compete; consumers will have a fair shake at the grocery store and an adequate supply of fresh milk will be available.

We thank you for your time and we would answer any questions.

Senator **COCHRAN**. Mr. Trawick, thank you very much for your fine statement.

Mr. Boardman.

STATEMENT OF WILLIAM R. BOARDMAN, EXECUTIVE VICE PRESIDENT, DAIRY FARMERS, INC., ORLANDO, FLA.

Mr. **Boardman**. Yes, sir. Thank you, Mr. Chairman.[1]

I am William R. Boardman. I am executive vice president of Dairy Farmers, Inc., in Orlando, Fla.

Dairy Farmers, Inc., is an association of four cooperatives serving the some 375 dairy farmers in the State of Florida. Our average dairy farmer milks 495 cows.

I am here to speak in favor of Senate bill 658. The members of Dairy Farmers, Inc., believe that this legislation, if passed, will accomplish two very positive things. It will remove the assessment that is about to be implemented by the Secretary if he is successful in court, and it will lower the support price. In turn, these actions, as has been testified by many this morning, should increase sales of dairy products. They should lower production and it should reduce the cost to the Government.

Mr. Chairman, I wish to digress for a moment to point out that Senate bill 658, which the dairy farmers of Florida strongly support, does not provide for a floor under the class I price. We feel that dairy farmers nationwide must share in the redress of this economic condition that we find ourselves in. If we have inefficient dairy farmers in the State of Florida, and they cannot survive under the economic conditions that a Wisconsin dairy farmer must share, then thus be it, we are all involved. We feel that rectifies the discussions we have had about regionalization. And if we lower the support price, whatever that amount may be determined to be, then it is fair to the dairy farmers themselves in Florida and it is fair then to the dairy farmers in Maine, Wisconsin, and Mississippi in our opinion.

One thing I would like to touch upon that has been addressed here also is the cost to consumers in the State of Florida and I think nationwide, if some plans of incentives are implemented and we garner an overcompliance. I think the PIK program surprised people and a number of farmers that participated in it, and I am fearful that some of the incentive plans might likewise have a compliance far beyond the assumptions that are made by those people that are utilizing the figures.

Let me give you an example in the State of Flordia. We import on the average around the year—more in some periods and lesser in other periods—about 10 to 12 percent of our fluid milk supply. As you probably know, we do not have any manufacturing facilities in the State of Florida. It is strictly a fluid State with the exception of some ice cream manufacturers, sour cream and those types of fluid.

But assuming that 25 percent of our dairy farmers avail themselves of an incentive reduction, you are talking about us needing to import fluid supply of some 35 percent. The possibility would exist there.

Last fall, in September, we had to import milk and we, as I said, regularly moved milk from Wisconsin into our market and it cost us $20.53 a hundred last September to bring that milk in. Our local price at that time was $16.70. You are talking about $4 a hundred more to the consumers to the State of Florida on a very minor part of the supply now. Under the existing marketing arrangements we have with our processors, we absorbed that excess increase. In other words, the $4 a hundred that it cost was picked up by the dairy farmers of Florida and not passed on to the consumers under our marketing agreements. However, those are verbal and if gotten to the volume that we are talking about, we of course could not absorb that amount of dollars into our normal marketing condition, and we would find it necessary then to pass it on to the consumers.

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[1] See p. 197 for the prepared statement of Mr. Boardman.

We think that the dollar drop that we are providing for or that Senator Hawkins has provided for in her bill, and the opportunity of the Secretary to drop an additional 50 cents or increment thereof, if the compliance does not come around, is a very reasonable and fair way nationwide to address the problem.

We also find it hard for us to understand, we keep hearing from the Department and other people in testimony that a dollar drop would not address the problem. Yet every historical thing that the Department's own figures show that in three different times when we dropped the support price, the lowest being an 8-percent drop which provided for a 20-percent drop in the purchases by the Government the first year; other drops varied and up to 52 percent of the purchase in the first year.

If you take the assumption on the low side, because we are addressing about an 8-percent drop of $1 in the support price and making the assumption it took the low side of 20 percent and they are also addressing—some of the economists who said if you drop the support price a dollar, you will enhance sales roughly 3 percent, you have addressed our problem of some 13½ billion of overproduction down to about a 7 billion of production in the first year, in our 7 billion purchases in the first year, which we think is a way to go rather than a dramatic change in the production supply in the Nation.

I could go on with a great many other of the points that were made here this morning which we do find problems with. The biggest problem we find in the incentive programs, we think, is that they will make too radical a change, get us into a posture where we may have a hard time getting out of high consumer costs, which we believe that would create in due time and back to a normal posture of production of milk in this Nation.

It is hard to sit here as a man who has been paid by diary farmers most of my life and say that there are dairy farmers that are going to have to quit milking cows. If you are not efficient in our system, then so be it. Whether you are selling Chevrolets or milking holsteins, if you cannot do it in competition with your fellow man, then you are going to have to find something else to do.

And we believe that a program of a normal drop in price support will adjust the production downward and increase sales and put us in a posture to get back into a normal production pattern.

Senator Cochran. Thank you very much, Mr. Boardman.

Senator Heflin, do you have any questions?

Senator HEFLIN. I have several. Many things brought forth in the various testimonies this morning that I had not thought of previously. The testimony of this particular panel has been excellent.

Mr. Jones, you brought out the idea that the $1 assessment that would go into effect does not inure to the consumer. In other words, it is a payment that goes to the Government and there is nothing that inures to the consumer. Is that correct?

Mr. JONES. Nothing; zero.

The only way that it would trickle back down to them is through the budget and, you know, that would be only pennies in my opinion, compared to dollars going in.

Senator HEFLIN. The basis of lowering a support price by a dollar, will it inure to the benefit of the consumer?

Mr. JONES. Definitely, initially; I mean, the first day, from day one the consumer would get the benefit of it. And compared to other things, it would be so simple. We have already got the program in effect. We have already got the people that are working that administer the program. It would just be so simple to do that I sincerely believe it would be far the best thing we could do to rectify the situation. I do believe it would lower production.

It would not lower production like the quota plan would now, Senator. I tell you that for a fact because in Mississippi you just have to get down to portion out when you are talking about a dairy farm. My wife says we are all eccentric and we are.

But I tell you what Buck Jones would do. I produced 3 million pounds of milk last year. You are going to give me $10 a hundred for 33 percent. I am going to produce two next year. And I am going to sell 60 cows; the beef people are just now beginning to get a little increase in price. We are going to blow their market to smithereens. Right? I believe that sincerely.

But I am going to get that $100,000 you are going to give me, and my neighbor is going to get it and his neighbor is going to get it and we are going to wind up with not enough milk to supply the market. We are going to have consumers down on our backs like wild fire. We are just going to have more problems than we have got now. I believe that.

Senator HEFLIN. I believe some testimony was brought out about the cost of production and the net return to dairy producers in various sections of the Nation. Maybe it was in your testimony, Mr. Jones, too, in which it shows that the net return in 1981 from the Appalachian region was only 70 cents per hundredweight of milk, compared to the net return in the Upper Midwest where they were $2.43, in the Northeast they were $2.31.

The $1 assessments—the 50 cents and then the other 50 cents—is it not in effect an increase of the cost of production by $1 per hundredweight?

Mr. JONES. Yes. Now you can call it whatever you want to. If you take $1 off the top, it is the cost in production. You can call it a tax, labor or whatever, but it is still there.

Senator HEFLIN. Well now, adjusting those figures or a cost of production, then in the Appalachian region if a dollar is added to the cost of production, then the net return to the dairy producer in that area based on assumable standard as we are today would be that you have a net loss of 30 cents per hundredweight. Is that a pretty good analogy or are there other variables involved which would alter most figures?

Mr. JONES. Senator, as you well know, you can drown in water that is 2 inches deep and this is average. But on the average, you are talking about a negative situation for some of our people; yes, sir.

Senator HEFLIN. Let us look at what it would be in the Midwest. Instead of $2.43, theirs would be based on $1.43 if it is added to the cost of production.

Mr. JONES. They would still be in a positive situation, as far as——

Senator HEFLIN. Yes. But it will be reduced.

Mr. JONES. Right.

Senator HEFLIN. And in the Northeast instead of $2.31, it would be $1.31.

All right. Now that is adding on the assessment. It does not inure to the benefit of the consumer. It adds instead, to an increase to the cost of production.

What would a lowering of the price support do relative to these figures? Does it mean that the same analogy would be true or does it mean that there is more of an area of flexibility wherein there could be better returns to the dairy farmer as a result of the price support reduction.

Mr. JONES. There is no flexibility in a $1 tax; zero. No, none whatsoever. In lowering a support price, there is some flexibility throughout the various markets on class I, for instance. It is not guaranteed if you lower price support that class I price would come down; they probably would if you did not have a floor on them, but it is not guaranteed.

For instance, in the fall when our milk is so short, if you drop a price support of $1, in September we would have a much better chance in our area of maintaining class I price as is than if it was done, say, this time of the year because we have got milk all over this time of the year, but there would be some flexibility.

My point would be is with the tax we would definitely be in a very gray area whether our industry could remain solid, but with the dollar cut in support it would leave us some flexibility. It would address the problem.

The main thing it would do, it would give us hope for the future. With a dollar tax, what hope do we have of rectifying the situation? With the dollar tax, we probably will just continue to go on and on and on until we bleed the poorer producers to death and never leave him any hope of improving.

You know, we are sitting here today talking about cutting prices, but I personally have hopes of getting the surpluses down to the point that where we can go back to 70 percent of parity that would increase our returns to our dairymen. We got out of proportion with other commodities; that is one of our problems. But if we can get our surplus back in line, there is always hope of improving your economic situation down the road. But as long as you have got this surplus hanging over your head like we have today, there is not a man in the dairy industry who would even speak of increasing price. But if we had the surplus down to 2 to 3 percent, which is manageable and needy, to fill the Government's need for a product, we can go on; we have got a hope. We have got something that we can hang our hat on and go to the future.

Senator **Heflin**. Mr. Forest, do you on a comparison of our consumers and a comparison of how dairy farmers come off as to cost of production and net return, pitting on the scales of lowering of price supports of $1 or their dollar assessments, would you address whether there is some flexibility involved.

I can see that on a $1 tax there is nothing that inures to the benefit of the consumer. It is an additional cost of production, but reduced price supports might have more flexibility from your historical view of that in seeing the relationship of market price to price supports or the flexibilities at times that would say that a dairy farmer in Wisconsin would be better off with a lowering of $1 price support as compared to a dollar assessment.

Is there a flexibility involved or are there other factors that must be considered?

Mr. **Forest**. I think as was brought out earlier in testimony, we have been through this problem of surplus before and we did attack it by lowering the price support rather than by putting in the quota system or a tax system.

I think it has worked because by lowering the price support, you are attacking on both sides; you are attacking on the supply side by having lower prices for farmers and you are attacking on the demand side by increasing consumption. So you are working two ends toward the solution of the problem. And, of course, it gives double weight to the action which you are taking rather than the single.

As far as the dairy farmer is concerned himself, a drop of an assessment of 50 cents is going to be the same as a 50-cent drop in the price support, but he does not have working for him an increase in the sales as a result of the drop in price. But I think there is a lot more flexibility and a lot more effect by dropping the price support than you have with holding a price and just assessing the dairy farmer.

Senator **Heflin**. I hate to show my ignorance, but the PIK concept—is there any area of operation where a reduction of surplus and the reduction of production by which a payment in kind could be used? It may not work, but others are certain it can work in the fluid milk area, but in the nonfluid milk, is there an area there that a concept could possibly work?

Mr. **Forest**. Well, a farmer produces milk; he does not produce cheese. So giving him back cheese for milk, where he has no place to get rid of that much cheese, he has to develop a market. It is different from the grains, where the farmer produces grains and you give him back what he would otherwise have produced. So I do not think it would work in milk.

In principle, as someone said before, it is not too much different as far as cost to the Government, when you pay back grains and corn and commodities, that is a valuable commodity and then he finally gets that back. And, of course, the compliance program of the federation really attacks that problem the same way. It would give the farmer money instead of commodities because we cannot give him back dairy products because he cannot use them.

Senator HEFLIN. Well, if you were to have some type of a nationwide sale and the net sum from the sale could be given to the farmer—I know I am going into the wild blue yonder. But is there any validity to this concept?

Mr. FOREST Well, selling back the products without a decrease in the production on the other side does not help the situation because it would tend to have consumers replace what they would otherwise buy in the commercial market with donations from the Government. So all you would accomplish would be a turnover of Government stocks.

Senator HEFLIN. How about on an export basis?

Mr. FOREST. Well, world market on dairy products is so small that, if you took it all over, it would not have really any significant effect on the stocks the Government has.

Senator HEFLIN. Thank you, Mr. Chairman.

Mr. BOARDMAN. Mr. Chairman, I have one comment I would like to add.

Senator COCHRAN. Sure, go ahead, Mr. Boardman.

Mr. BOARDMAN. The bill that we are supporting in Florida does not provide for promotion in it. However, the dairy farmers of Florida would strongly support some type of a legislation for the program.

Senator COCHRAN. This is the bill that Senator Hawkins has introduced. It would lower the dairy support price a dollar and then give the Secretary some authority to make further reductions on the support price.

Mr. BOARDMAN. And we would support his promotion of it.

Senator COCHRAN. I wonder if the Congress agreed to reduce the support price and freeze the class I prices, whether the production is going to be reduced by either culling marginal cows or culling marginal farmers. What will happen? Will it be a combination of both in your judgment? Is that the projection that you would make?

Mr. JONES. There are probably dairy farmers in my area that should not be in the dairy business, probably the same percentage in Wisconsin or Hawaii or wherever. There are cows being milked today that probably should have gone to beef.

So I think that it would do both. There would be a gradual coming down of culling cows and producing.

Senator COCHRAN. What if during deliberations on this proposal, the committee ended up agreeing to reduce the support price but not freeze class I prices? Would that suit you all right? What would the preference of these be then—to go with the base plan or take the support price cut?

Mr. JONES. I think that I can speak for my people that we would rather go for the cut in the support price. We want the class I freeze and we want it desperately.

Senator COCHRAN. Is the part of the proposal that requires the freezing of class I prices essential because it keeps the differentials in place between the regions?

Mr. JONES. It will improve the differentials, which should have been done. And there has been some talk of USDA moving those differentials. They have not been moved. Mr. Forest can tell us. How long has it been?

Mr. **Forest**. I said in my statement, 1968.

Mr. **Jones**. 1968. So that is 15 years since the differential has been moved. Now you tell me what the cost of transportation is doing? And that is what it is; it is the transportation differential. That is all it is.

And you tell me, you check the hauling rate from wherever the rate is, say somewhere in Wisconsin or Minnesota, to New Orleans, La., compared to what it was in 1968.

Senator **Cochran**. Well, you pointed out when you were testifying that the real world was a $5 differential.

Mr. **Jones**. Well, I just pulled that out of a hat. Goodwin has got the figures that shows $4 and something. I was guessing.

Senator **Cochran**. And the differential is $2.85.

Mr. **Jones**. Yes.

Senator **Cochran**. That is what it amounts to.

Mr. **Jones**. Yes.

Senator **Cochran**. You have got almost half of what it would be if you had——

Mr. **Jones**. It would be much more realistic than what the actual world is.

Senator **Cochran**. If you do not freeze class I and you make a cut in the support price, are you going to get a lot of milk coming into the region, for example, into the Southeast from the Midwest, where you might have the total market displaced?

Mr. **Jones**. That is a possibility, yes, sir. When you have got such a——

Senator **Cochran**. Has that ever happened in the past, Mr. Forest? Do you have any indications? I have heard that several years ago, in the 1950's or some time, the differential did get out of kilter and a tremendous amount of milk from the Midwest or other regions was moved into the South.

Mr. **Forest**. I do not think that it moved because of the size of the differential. But in certain periods of time the South did run relatively short of milk and did import milk from the Middle West because of the need for it. And as Mr. Boardman pointed out, the farmers absorbed the increase in the cost of that milk as compared with the local price. They absorbed the cost of transportation.

Mr. **Boardman**. Mr. Chairman, our concern is just what you pointed out, that if you maintain a floor under too high a class I price that you might exacerbate that opportunity of moving additional supplies into that, whereas if the dollar price is over everyone, if the dollar price drops, then you will remove that.

Mr. **Forest**. If I might add, I do not think because we have not increased that differential since 1968 and Federal milk orders, I think we have a lot of flexibility of increasing that differential without causing any market disorder or uneconomic movements of milk.

Senator **Cochran**. I think it was Bucky Jones who pointed out that cost of production in the South, particularly Florida and south Mississippi and Louisiana is substantially greater than it is in other regions of the country.

What are the factors that make up the increased cost of production in those areas?

Mr. Jones. Well, from my own standpoint, I think your feed production is the main thing. Most of our people, Senator, buy corn off of the river, you know, either Cargill and Baton Rouge or Vicksburg. And, you know, we have got a situation where if you have got corn to sell and you sell it for one price and you can buy the same corn back from the same company the same day on the same truck and pay about 40 cents more for it. So, you know, that is the situation that we have lived with, that we are in a very deficit grain production area. The dairy industry is—the appetite for grain is insoluble almost and we just have to import this grain, and that is the biggest cost factor that would change our situation from the Midwest, in my opinion.

Of course, we have health problems too, because of the humidity and such that would tend to lower our production per annum. But basically it is the grain.

Senator Cochran. I do not know anyone who likes this assessment. I do not know anybody in Congress claiming credit for suggesting it. I think there is unanimity in Congress, as well as out in the industry, for repeal of the assessment.

I do not hear anyone defending it at all, and I hope we can see a coming together of consensus developing to repeal that assessment and substitute some other kind of plan in place of it.

I am impressed with your suggestion that the quota plan, the compliance plan, base plan would result in a full participation. Is that true in other parts of the country as well as in the Southeast? We heard the federation suggest what would happen and you probably were here to hear the suggestion that a certain percent would participate and cut production 30 percent; some would not do anything; some would increase production.

Mr. Boardman. Our difficulty with it, Mr. Chairman, is the fact that if those figures are correct, are of value to the dairy farmer—and I think Mr. Healy testified in the House; I am not sure that I heard it today—but there is almost a $30 turnaround available to the dairy farmer there if he takes the advantage of taking the $10 compliance payment.

I cannot for the life of me, having been a dairy farmer in California, imagine a dairy farmer that would not take advantage of that thing if his history provided for him to do it. And I think the compliance would be much higher than their assumptions are.

Senator Cochran. Would the impact on the industry nationwide with full participation be a shortage of milk or an increase in cost to consumers?

Mr. Boardman. I have not had the opportunity to run those figures. I had hoped that someone would answer the question of those who are proposing that plan, that did they run it at the optimum assumption. You know, I am sure that you can anticipate what that would be. And we do know that about 5 percent of the dairy is turned over each year. So, I am making that assumption through the 3 years or 2 years of history and up until now. There would be roughly 15 percent of the dairies that would not be available to a history. So those would be making payments or be noncompliant dairies, assuming that my figures are correct and these are the off the top of my head admittedly.

So you have got 85 percent of the dairies, give or take, that are available to comply with the 30 percent reduction. If you take 30 percent off of 85 percent of the production in this Nation, I think you are dangerously close to causing chaos. And I have no figures at this point to substantiate this, but someone surely has run those.

Mr. **Jones**. Senator, I am not an authority of what other areas would do. I certainly cannot speak for the Midwest or the Northeast or the West or whatever, but I think I can speak for Mississippi and Louisiana without any doubt of getting myself in trouble, that if you hang $10 or $100 in front of our dairy farmers to reduce production, they will reduce it to the point that you want it reduced. It will happen. You know, it will happen.

Senator **Cochran**. What if you had a compliance plan or a base plan like that and just had a smaller percentage of reduction, say 20 percent, or 15 percent? Would that be better than a dollar support price reduction?

Mr. **Jones**. I really do not think so. I do think you would get response. But you would cause more problems in our area than you solved. Who is going to supply the milk when you cut it? There are times that we just have to pull milk over there to fill the needs of—not powder and cheese or whatever. I am talking about class I. It just does not have the production.

Senator **Cochran**. It would have to come in from other areas, as you suggested, and that means higher cost to consumers.

Mr. **Jones**. That would be my opinion.

Mr. **Trawick**. Any type of base plan would lock these farmers in to a certain amount of production, which, you know, we have recognized will increase inefficiency and decrease productivity. There are really the two things that we are looking at on cutting the support price a dollar. It leaves all farmers in a position to compete for their market. If they cannot compete, they get out. The second thing that it does is it gives that consumer a break. I think today with the publicity that we are getting, the consumer does need a break.

So, as Mr. Forest said, it tends to work together, but we do not need any program that would lock our farmers in to the provision of having to cut or something—well, the $10 a hundredweight puts him in the position that he is almost out of good production, and we just do not need that. He needs to compete for his sales in his area.

Senator **Cochran**. Is there any assurance that this dollar reduction in the support price will be passed on to consumers or will it end up in the profit column on the marketing activity? Does it matter whether it is a cooperative doing it or whether it is an independent processor who is paying the farmers a dollar less, in effect?

Mr. **Boardman**. We are concerned with that because history has shown that usually when those support prices have been cut that the price to consumers did not follow the drop to the farmer. But we believe that now the publicity of this whole issue has been so well documented nationwide that we feel—we are hopeful, I guess, rather than feel—that the processing and retailing industry would be more likely to comply, but history does not support that.

Mr. **Forest**. I think the experience in the dairy industry is that the margins in the dairy industry are small which brings them to a lot of competition in the marketing of all dairy products. I think that competition will get the price to consumers down.

If they could increase their margins, but the problem with the dairy industry is the margins are already pretty low.

I think one other point, Mr. Chairman, on the quota, I do not think there is any question but what a quota could be very effective in reducing production, but it is these other problems which quotas would necessarily involve the Government in. A decision would have to be made of how much of a cut you want in production, what the rates of payment would be, where is it going to have the impact, where the dairy industry should develop? All those questions would have to come back and be decided by the Government rather than as under a price-support program, with a reduced price being handled by the industry. Where efficiencies can be made, where milk can be produced more efficiently; those decisions would be made out there rather than by the Government having to make them.

Senator **Cochran**. I appreciate your being here and helping the committee understand the problems and the details of the proposal that you are making, the differences between the proposals. Thank you very, very much for your help.

On our last panel this morning we have the processors. We ask you to come to the table. We will try to wrap up the entire hearing this morning at about 12:30.

We have Ben Zarda, president of Zarda Dairy in Shawnee, Kans.; Linwood Tipton, Milk Industry Foundation and representing also the International Association of Ice Cream Manufacturers; Donald Randall, representing the National Independent Dairy Foods Association; and John Benjamin Carroll, representing Dairy Farmers Distributors.

I would like to ask you to go ahead and begin. Realizing that we do have copies of all of your statements, we would encourage you to make a brief oral statement to the committee. This gives us a chance to have a dialog on some of the issues that are raised by your testimony and the testimony of others who have been before the subcommittee this morning.

We can go ahead and begin with Mr. Zarda.

STATEMENT OF BERNARD ZARDA, PRESIDENT, ZARDA BROTHERS DAIRY, INC., SHAWNEE, KANS.

Mr. **Zarda**. Mr. Chairman, I appreciate the opportunity to address the subcommittee and I am Bernard Zarda, president of Zarda Dairy.[1] We are a family-owned-and-operated dairy. We are in our 73d year of operation. We have milked cows for more than half that time and we do not milk cows at this time.

We were one of those that were talked about earlier. We found the time where it was not financially expedient for us to continue milking cows. So we discontinued and that does happen from time to time.

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[1] See p. 201 for the prepared statement of Mr. Zarda.

We agree with the concept of the Government involved in the marketing of milk, parity, and so on. We feel that prior to 1979 there was somewhat of a balance that we felt it was workable. Since then, I think the Congress, if my memory serves me correctly and not going from my notes, dealt with this problem five times in the last 2 years. It does not seem that we, the industry, have solved it. I do not believe we, the industry, farmers or processors have made much of a contribution. We have been aware of the problem for many years and I think that once again we are dependent on the Government to perhaps show us the way.

I think it was a good move when the parity of $13.10 was established. As I recall, if it had not have been established at the time, I think we would have about a $15 or $16 base price now. So it was a good move at the time. However, there are other considerations that perhaps the situation was not dealt with in enough depth at the time and we favor a reduction of at least $1 in the support price. We favor it because that dollar will go back to the consumer.

I know the question was asked a few minutes ago: Will indeed that saving be passed on to the consumer? And I am here to say that it will. I think in all cases that I know of and studies have shown that that does go back. Once in a while you will see a reduction in class I and a price not moved very much, but the farmer coops have found a way to provide premiums sometimes. So we have seen sometimes—just using hypothetical figures of a 15-cent or 50-cent reduction in class I and maybe a premium reinstalled of maybe of 10, or 12, or 13 cents. Now those are hypothetical, but that has happened over the last few years.

Senator COCHRAN. Well, what if the dollar price support is approved or the cut in the price support is approved? That is a 7.6-percent reduction in the support price. Will consumer prices go down 7.6 percent? What amount do you project they will be reduced?

Mr. ZARDA. I would say that, particularly in our market—we have a very competitive market. We have had probably five or six processors who have gone out of business in the last 3 or 4 years, major processors. And I would say that it is due to the very competitive nature of our business and our market.

I know in our market competition will demand that we respond totally.

Really, we do support that. We support it vigorously. We do not believe——

Senator COCHRAN. Your preference is to cut the support price $1?

Mr. ZARDA. Yes, sir.

Senator COCHRAN. With authority for the Secretary to make further reductions if production numbers do not respond?

Mr. ZARDA. Yes, sir.

I would believe that he should have authority for another 50 cents. Hopefully, it will not be necessary, but I believe, as I said earlier, we, the industry, you know, we as a former producer have seen this problem coming on. We failed to respond to it. I think now we need some action that probably will be more long lasting. I realize we cannot even conceive a solution that would be, you know, lasting to infinity, but at least something so that we do not have to deal with the situation, and to take this tremendous tax burden off of our system and then pass that saving back to the consumer.

I think we have seen the consumption, the per capita consumption, of the product deteriorate with the increased prices. We believe that we have seen some period of stabilization. We have seen a slight increase in the per capita consumption. I believe that that particular program will do more to probably increase the consumption of milk.

We also believe that the special milk program should be reimplemented for a couple of reasons. One is, of course, to alleviate and give some marketability to the surplus, and also I think from a health standpoint. I have seen schools that probably we served in our industry where probably it was the only glass of milk the children got. I do not want to get into that. But I really believe that it has, you know, many more good points than just what we are talking about here.

Senator COCHRAN. Mr. Tipton.

Mr. TIPTON. Thank you very much, Mr. Chairman.

I will condense my statement.

Senator COCHRAN. Thank you very much.

Mr. TIPTON. Also Dr. Conerly asked me to extend his regrets that he could not be here. He was intending to come and some other business situations occurred last night that prevented it. But he has asked that I offer his statement for the record.[1]

Senator COCHRAN. Sure. It will be entered in the record.

Mr. TIPTON. And if you could include that——

Senator COCHRAN. We appreciate having his statement and thank you for that.

STATEMENT OF E. LINWOOD TIPTON, SENIOR VICE PRESIDENT, MILK INDUSTRY FOUNDATION/INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

Mr. TIPTON. Thank you.

I will make my remarks very brief.[1] We are in favor of a price reduction. We believe that a $1 reduction is absolutely the minimal amount that ought to be made. It ought to be across the board. We would oppose trying to hold the class I prices and only imposing the reduction on manufacturing milk prices. I will get into some reasons for that in just a moment.

Senator COCHRAN. I would like to hear your reasons for that.

Mr. TIPTON. And we are also very much opposed to any of the quotas or base plans or artificial restraints on the production.

We have a couple of complaints I do not think have been talked about a great deal that we wanted to voice at least. One of the problems that impacts milk processors rather severely when we have prices as they now are is that it erodes consumption. And milk consumption has not been a bright spot for quite a period of time. This past year, fluid milk consumption will be down about 1 percent below what it was the year before and it has been on a per capita basis a rather substantial erosion over a number of years, unfortunately.

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[1] See p. 202 for the prepared statement of Mr. Tipton and p. 215 for the prepared statement of Dr. Conerly.

And so, anything that we can do on the prices will help that situation. The imposition of assessment, obviously, as others have been testifying, does not help that at all. We get no benefit on the consumption side whatsoever.

The other thing that is of great concern to us now is with the continual generation of the huge surpluses. The Government has had a very difficult time in rotating their stocks and, in fact, are into a very heavy giveaway program. And I am always kind of chagrined when I see on the news or I hear people talk about the need to increase the giveaway program, when I think the real emphasis ought to be on the need to decrease the amount of surpluses that the Government is having to buy in order to find out, let us give it away.

The thing that is hurting us at this point is that there are such large quantities that are being given away, we are confident that there is some erosion of the commercial market, which is not going to help the Government at all in decreasing their surpluses. Really, all it does is rotate their stock somewhat.

In the case of cheese, they are giving away about 8 percent of the total commercial cheese market, and it looks to us at this point that they are probably giving away something around 50 percent, maybe slightly in excess of 50 percent of the commercial-processed cheese.

And I am convinced giving away that quantity has to have some inroads on the commercial market.

In the case of butter, it is approximately 13 percent of the commercial market that is now being given away and in the case of nonfat dry milk it is about the same amount, 13 percent.

In the case of nonfat dry milk, it constitutes in its reconstituted form, instantized nonfat dry milk—in its reconstituted form would make up about 2½ percent of the total fluid milk consumption in the country. That is an amount that they are giving away right now. They would be doubling the consumption of instantized nonfat dry milk. I suspect that if they doubled the consumption of instantized dry milk, they are going to reduce the consumption of fresh fluid milk. I do not believe that that is the right approach to the problem, and it has created problems for us, of course, in additional sales.

I think for the rest of my time I could most beneficially spend by talking about the chart or table that is appended to the end of my statement, in which we have attempted to outline the impacts from various alternative courses of action.

I said I would come back to the business of why we are opposed to holding the class I price. And before going into that, I would like to comment further on the question that you asked Mr. Zarda. You indicated that the dollar drop in the price would constitute about a 7.6-percent drop in the price to producers.

The price at the retail level—a lot of people get confused on this occasionally—would not be an equal percentage amount.

Senator COCHRAN. Sure.

Mr. TIPTON. It would be at least half of that because the additional cost of processing, distribution, and retailing constitute about 50 percent of the retail price. So even with the 7-percent drop, you would be talking about a 3½-percent drop possibly at the retail level.

I would concur with Mr. Zarda's statement that with competition being what it is, and the dairy industry is earmarked with extensive competition, we have surplus capacity in most of the processing plants in the country so that they compete with each other vigorously in order to keep their volume up. And I think the history does demonstrate, contrary to what some have said, that that would be passed on.

Our concern with the dollar drop in the support price, but holding on to the class I prices, is several. One of them is that we do not believe that a dollar drop across the board is accurate to reduce the surpluses and, if we do not permit it to affect class I prices, we are absolutely convinced that it will have very little impact on reducing the amount of surplus.

We have appended to our statement a table that would indicate that with that plan in effect for a 2-year period, going to 1985, it is our estimate that the surpluses would still be about 14 billion pounds of milk which the Government would be buying and it would cost approximately $2.3 billion. And that is not much different from what the current situation is, and that is what we think would happen with that kind of plan.

Senator **Cochran**. Would the real effect of cutting the support price by a dollar and freezing class I be to exempt the areas that are producing mostly fluid milk from the price support cut?

Mr. **Tipton**. Well, it would certainly mitigate the impact in those areas. It would not totally exempt them because even in those areas, they have a significant—maybe 25, 30, or 40 percent of their milk is going into manufacturing purposes, but it would certainly have a much lesser impact on the prices paid to producers in the Southeastern part of the country as opposed to the Upper Midwest, a significantly different impact.

But when you take those into consideration, we just feel that you would not get much of a change in the production and certainly you cut in half or more the impact on sales because you only have the reduction in the retail price on approximately 50 percent of the profit.

Our estimates are that with a $1 across the board decrease by 1985, that even with that, we have not really solved the problem completely, but we have gone a long ways. It would be purchases of about 8.3 billion pounds of milk and that would cost about a billion dollars.

It is that second 50 cents that we believe really gets a tremendous impact on production. And with that second 50 cents or going down as much as $1.50, you would probably end up in 1985 with about 4 billion pounds at a cost of about $500 million. Those are about the way we think those plans would work.

I would like to just mention a couple of other things. One, I certainly was delighted to hear Mr. Boardman and Mr. Jones talking about—correcting some of the myths that have been testified to on a number of occasions. I certainly agree that if you drop the price of milk, you are going to decrease production. You are not going to increase it, which is a myth that I have heard frequently, and the evidence is clear, as Mr. Boardman pointed out, that if you drop the price support, every time that has occurred there has been a substantial decrease in the amount of CCC purchases. I think the record is very, very clear on that, and I just wanted to reemphasize that again.

We would be very, very supportive of some expanded advertising promotion program as we have talked about before, and the other one which you have outlined in the statement that I would like to just mention, is what we call the children's surplus milk program. We think this has a tremendous amount of merit and it basically would take the amount of money that the Government is now spending to buy the milk in the form of butter, powder and cheese that was formerly being served as a part of the special milk program.

We estimate the cost of that is somewhere between $80 and $100 million and we would suggest taking that money and turning it around and making it available from CCC to actually buy fluid milk and distribute it in the schools at other than meal time, which would be the same program as formerly the special milk program.

In order to protect against continuation of the Government expenditure when there are not surpluses out there that would justify it, we would also propose that, if that program were instituted, that it should also have the self-destruct provision in it so that when CCC purchases drop to 3 billion pounds or lower, that that program would no longer be available.

We appreciate the opportunity——

Senator **Cochran**. Thank you very much for your excellent statement.

Mr. Randall, Donald Randall.

STATEMENT OF DONALD RANDALL, NATIONAL INDEPENDENT DAIRY FOODS ASSOCIATION

Mr. **Randall**. Thank you, Mr. Chairman.[1]

We urge that the Congress give the Secretary an additional $1 discretion if CCC purchases reach a point in any 12 months of 4 billion pounds; in other words, there ought to be a dollar cut immediately. In addition to that, the Secretary should have the discretion to cut it an additional dollar in the increments that are appropriate if the purchases go above 4 billion pounds.

Beyond that, and we are very concerned about the creation of these dairy boards, with almost unlimited power to penetrate and to examine proprietary data within the marketplace which the coops could then use in a very disastrous competitive way against the proprietary processors.

We would urge total opposition to the dairy boards. We do believe that promotion is a good idea. We think that the brand name promotion, if it could be developed in a fair and reasonable way, would be more productive.

I brought along with me today some UHT samples. This has been in the refrigerator this morning getting cold so that it would taste better. It is an example of a proprietary from Logan, Utah, who has gone into this in a very large way—produces what is called here Fridge Free chocolate and plain milk and then later branded GEE vanilla, strawberry, and other flavors.

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[1] See p. 216 for the prepared statement of Mr. Randall.

It is an example of a new product. It can be marketed, and marketed I think rather effectively. The co-op, DI, I believe has just introduced into this area, in the Washington area, the same kind of prepackaged high temperature milk. It is good. It tastes about as different from traditional pasteurized milk, as does unpasteurized as compared to pasteurized milk. I do not know if too many people have drunk unpasteurized but——

Senator COCHRAN. I cannot remember that far back.

Mr. RANDALL. We think that proprietary has a place in the market. He can fit it very well and efficiently. He can provide a reduction in the price of the product to the consumer if we lower the support price and that would help us.

Senator COCHRAN. Thank you very much, Mr. Randall.

Mr. CARROLL.

STATEMENT OF JOHN B. CARROLL, DAIRY FARMERS DISTRIBUTORS, CHITENANGO, N.Y.

Mr. CARROLL. Mr. Chairman, I am John Benjamin Carroll. I am an attorney for the Dairy Farmer Distributors of America.[1] We are a trade association of farmers who process their own milk and distribute direct to the consumer public. We engage in commerce virtually only at the fluid milk level. Our members are located in most of the States of the United States.

Typically, we are small in size, small in number. Collectively, for the whole of the United States we amount to 1 percent or less of the milk production of the United States.

We have been exempted from milk marketing order programs during almost the entire history of the program and, as I have indicated in my statement on page 2, there are seven reasons why those exemptions have been granted. And without burdening you with each of those reasons, basically speaking they are that there is no benefit to the regulatory program and the detriment involved in having to oversee and administer and be related to these types of units were not useful, so that we were caught by surprise when out of the conference on the Omnibus Budget Reconciliation Act of 1982 we were swept into problems with which we had had no association whatever nor any real notice or knowledge that we were about to be put out of business.

The assessments that are set forth in that bill, either one of them, are destructive of all but 7 percent of our industry. We cannot survive and farmers cannot have the avenue available of marketing their own milk if they want that right without that type of an exemption.

And we have been listening in other hearings to people in Hawaii and Puerto Rico, and I know that you are being besieged. I am sure everyone in the world would like not to have anything to do with larger benefits you are about to bestow. But we cannot survive and we wish that the traditional policies of this Congress and all administrations would be followed and we would be given the right to go home and market our product.

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[1] See p. 220 for the prepared statement of Mr. Carroll.

We do not ask for any money. We do not ask for any support. We do not ask for any benefits. If we do not make it on our own, that is our problem.

Senator **Cochran**. But do you not benefit indirectly by the fact that a support program does exist? Were it not for the support program, you probably would not be in business either.

Mr. **Carroll**. That is an excellent question. I am the attorney in chief in the suit against Mr. Black, Moleroy against Black in the Northern District of New York. Tomorrow I go in for the final motions on that. I just came from South Carolina on the motions down in South Carolina and, in preparing that litigation, we asked ourselves that question. And we want to extend our sympathy to you or anyone else who is trying to regulate this industry, because methodology has taken the place of studies and statistics and we can find no proof whatever.

We have affidavits from learned economists asserted in these actions and about to be ruled on by the courts. Not only is this program not a benefit to us, it is in fact a detriment. This is off my point, but as long as you are having to regulate, I would earnestly suggest that some of your staff spend a considerable amount of time with the Department because we have found that their statistics were not kept according to law. We found that they were inaccurately put together.

The outside economists we hired, some of them had worked for the Department at one time, were in a state of shock. At the last session yesterday in South Carolina a former member of the Department, reviewing the present statistics being offered by the Secretary, stated that they were not only not in conformance with the requirements Congress has put down for keeping these statistics but that they were wholly and woefully inaccurate and not being put together.

It appears that considerations, other than statistical considerations, have influenced the keeping of these and perhaps all of us have been accepting what we think we know rather than what we can prove.

Senator **Cochran**. Have you considered incorporating in your suit an application for writ of mandamus?

Mr. **Carroll**. Well, I have not because if they do not want to put the proof in, that is up to the court to decide whether they have complied with section 1441(a). This Congress told the Secretary—and not this Secretary but earlier Secretaries—that it wanted to have statistics kept showing the return to management of farmers. As of 1979, I am informed by our economists that they have stopped keeping that particular factor as a built-in factor. They were told to determine by this Congress what is a fair return for management.

What they have done is, they have taken the gross returns of farmers and subtracted out all fixed and variable costs and they made arbitrary allocations between labor and management, but they have not determined for this Congress under the act that a farmer is supposed to receive a fair return for management. That is not there.

The labor return is not done on a fair return for labor, it is done on an abstract statistical net result basis of, what is left. It is simply a distributable figure.

This program has drifted from its moorings and it is doing substantial damage. I am here today not only on behalf of producer handlers, but I have talked to over 4,000 farmers in the State of New York. We have conducted a survey among those farmers. Eighty percent of those farmers cannot survive the $1 deduction. Sixty percent cannot survive the 50 cents.

The amount of human suffering that is represented in these arithmetic figures is past counting. I had one lady who had 12 children tell me that she is no longer able to pay her ordinary bills and expenses. She had $75 left for Christmas last year. She says that if her 12 children are to be supported on welfare, the cost to the United States and the cost to the State will far exceed that particular situation and she dislikes her children not being taught productive work. The food stamps alone would be considerable.

It is apparent this program is not just an economic program. It is also partially a social policy program and we respectfully submit that the Congress ought not to walk away from that allegation and ought not to increase the burdens and miseries of basically poor people receiving $4,000 and $5,000 a year net incomes and tax those people to the point where they have little or no money remaining.

Senator COCHRAN. What, if anything, are you recommending as an alternative for the committee to consider?

Mr. CARROLL. We are not recommending at this point in time or adopting a position on any of the alternatives. We are urging this committee to forthwith pass a bill which removes this deduction from the books. It not only is wrong in terms of human suffering. It is wrong economically at seducing overproduction and it is wrong in principle because the Congress asserts the right to drive out of business by the power of taxation such members or such industries as it sees fit to do.

And we are maintaining in many courts in the United States, and ultimately I hope the Supreme Court, that the people of the United States in the formation of their Government never intended that this Government could centrally manage the economy of this country and not by the power of taxation.

I would like to say also that in this hearing yesterday, Dr. Moats, who is a recognized expert in the field and a former member of the Department, testified because of the PIK program that there was going to be a minus 71 cents per hundredweight dairy farmer income in the Corn Belt, minus 72 cents in the Appalachian region, and on the national average only 61 cents.

Now from these figures, one has to also pay for the labor of the operator. One has to also give him a management return under the current arrangements. If the Secretary, in my opinion, were to carefully and honorably carry forward the congressional directorates that farmers receive these particular incomes, there is no way in which he could have levied or can levy an assessment on an industry that is so weak.

Most of these people, Mr. Senator, are responding to the fact that they have had high-interest rates. They have had high-interest rates not because they want to overproduce or that they do not want to cooperate with somebody but because that has been the policy of the United States. That particular item has doubled.

I saw a tax return in Idaho of a farmer whose net income was $2,740 and whose interest payments were $17,000. Two years earlier the same debt load had been $7,000. There is not any question that that man had no alternative but to put on more cows in order to pay the bills that this Government in effect had put on his back.

That is not going to change by any arrangements that this Congress makes unless and until the interest rate situation is attacked. I understand it is about to be solved, but we have had a monetary policy, monetary economics which has been probably sound. I am not wise enough to know the need or necessity for it, but those policies have been harsh and difficult and have caused the problem that is before you today. You cannot change that, sir, in our opinion, by simply going to the noncause of the problem, tinkering around here and there and doing a little bit. That problem is going to remain as a problem.

In addition to that, you now have the feed costs. You have solved one problem and you have walked into an even bigger one. What is to happen with the dairy farmer with these new increased prices. Obviously, you are looking at an industry that is very, very sick and, based on our studies, and we believe they are representative of the United States because we had them done in Idaho, in Utah, we have done them in Florida, we have done in South Carolina and it is always the same, you are going to have a sudden demise for farmers and farming with an unbelievable load on the local communities. In one of these areas the bulk of the school tax is being paid by dairy farmers, and the teachers union of the State of New York for the first time in history took the position against this deduction, asking Congress to repeal it, and incidentally both houses of our State government have, both of our Senators, because we are unable to fund and finance the local results of this program.

If these concepts were good and have carried us this far, then they are still good. We need to have this kind of a program in order to get the multiplier going through some of these rural economies. I will confess the farmer pays very little income tax but he does pay a lot of real estate taxes. And that is what funds the school. The insurance man who does business with him pays income taxes. I have affidavits in these actions from insurance men who said the farmers are coming in by the dozens because of this deduction, turning in their life insurance, cutting back on their fire insurance, cutting down on their automobile liability. One agent refuses to write any more business for these farmers because he said it is impossible for us to be around when the next year comes. The widow comes and she has no life insurance and she does not know this is happening. The farmer has an accident and he is inadequately covered and loses the farm. There is a fire and he cannot rebuild.

The affidavits that have been put in by individual farmers of their hardship and their depth of suffering ought to have some consideration. They have been stunned that this Congress with this situation since September has done nothing. And were it not for the judge in South Carolina, we would be faced with a totality of a problem, greater than any American agriculturalists had in a long time.

Senator COCHRAN. I do not think you are for the assessment, are you? Well, we appreciate your contributing to the hearing and all of you have helped us in a very important way to understand the complexities with which we were faced.

This hearing will stand in recess now until 2 o'clock, when we will resume again.

Thank you very much.

[Whereupon, at 12:40 p.m., the subcommittee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Senator LEAHY [presiding]. I know that our distinguished chairman of the overall committee wants to be here for Commissioner Graham's testimony. So I will go in a slightly different order. When the chairman gets here, I will give up the chair to him.

I apologize for the delays. I was telling a couple of my good friends from Vermont here, like every Senator I serve on quite a number of committees and subcommittees. I think it is 16 committees and subcommittees in my capacity, 6 of which have been meeting all day today, including one which is the Intelligence Committee, which has to meet for obvious reasons behind closed doors all the time. I have been trying to cover each one of those, give a brilliant but instantly forgettable speech on the floor of the Senate and go on to some other things. It has been one of those kinds of days. There were a number of phone calls that have been piled up today. So far, there has been only one that has gotten through and, to give you an idea of how you go by level of seniority in the U.S. Senate, you know how important you have to be to get through to a Senator on a busy day. It was my wife.

Why do we not start with Mr. Rikert from the Agri-Mark Cooperative.

STATEMENT OF JIM RIKERT, AGRI-MARK COOPERATIVE, SHARON, VT.

Mr. RIKERT. I am Jim Rikert, a dairy farmer from Sharon, Vt., marketing my milk through Agri-Mark Cooperative, which is a producer cooperative associated with 3,800 members in New England and eastern New York. It markets about half of the milk in Federal Order I.

I am 30 years old and my wife and I entered into a partnership with my parents on a home farm 10 years ago. As neighboring farms became available for our use, we expanded from 40 to 130 cows. We got big and we did not really make much money. So we thought our overall goal would be to concentrate on quality than to spread ourselves so thin over more acres and more cattle.

My main objectives in being here are to make sure that the truly desired goals of a comprehensive dairy policy are brought out and kept in view until they become law. Someone once said, "The only thing I know for sure about politics is that a bill never looks the same coming out as it did going in." I will try not to get bogged down on the wording of specific bills, but will attempt to bring out the objectives that a bill should contain.

These goals, as I see them, include: keeping the stability in the dairy industry. Countless people out there depend on the success of the dairy industry for their incomes whether they realize it or not. If the plug were pulled on a dairy farmer, a lot of people would go down the drain with us.

I chose dairy farming as my profession and I hope, God and Government willing, to be around for a while. Therefore, a plan must contain not only short-run solutions but be flexible to meet ever-changing conditions further down the road. The price support system has lent stability to the industry and should not be destroyed to solve short-range problems.

An incentive to produce less must be established, in my opinion. It is an absolute fact where I come from that the more price supports are cut, the more milk farmers will produce. If margins per cow are cut, then more cows mean more margins.

Several farmers have told me that a cut in the price of milk automatically means we have got to make more of it. The economic climate is one of a national epidemic, an epidemic of expansion. The American farmer, in an effort to make a profit or in most cases just to exist, can and will make more and more milk, increase more and more problems unless economic incentives not to produce are established.

If the price of milk is dropped with no incentive to cut back production, it will be just like stringing every farmer up by the neck and watching them thrash and kick. When enough of them stop kicking, it will be OK to cut the rest of them down but they will be hurting pretty badly also.

Dairymen will live off their equity for as long as they can, trying to hold out longer than their neighbors. Therefore, a plan to enable dairymen to make a decision between cutting back, staying the same or increasing production and knowing the economic consequences involved is an absolute necessity.

I do not like milking more cows. My bottom gets sore riding a tractor over more acres to feed them and I do not like going deeper into debt to buy the necessary inputs, but it seems we have to do these things to survive economically.

The demand side of the dairy industry must be strengthened. At dairy meetings everywhere the need for more advertising comes through loud and clear. We are being beaten badly on the advertising battlefield. Producer contributions to promotion, research, education and advertising must be mandatory. They must be increased and it must be done now.

In summary, I believe that the National Milk Producers Federation dairy compliance program achieves the goals I have tried to bring forth. It maintains the present price support which should lend stability to the dairy industry. It addresses the need to offset a portion of the CCC purchases and provides a real incentive for producers to reduce production. It gives producers some alternatives to make management decisions so they can deal with the problem on an individual basis according to their own circumstances, and it deals with the problem from both the supply and demand side.

Farmers realize that every plan will hurt and that something must be done, but a drop in support price with no incentive to curtail production will mean more and more milk on the market and, in the long run, a severely damaged dairy industry. Advertising must be mandatory for everyone and increased.

Increasing the minimum standards of milk is an additional area of concern to me. That in itself I feel will reduce the surplus to a significant degree and yield a better product.

I realize there are different bills in Congress that address the above topics. I do not care what the title at the top is so long as the major points are intact when they emerge from the car wash of Congress. A problem that we farmers have is that we wait and react to economic change instead of initiating it for our betterment.

The hearing here today is an opportunity for us to shape our own future and I sincerely thank you for the opportunity.

Senator **Leahy**. Thank you.

Since Mr. Rikert started, we have been joined by our distinguished chairman, Senator Helms. Mr. Chairman, we have just heard from Mr. Rikert who is a farmer in Vermont and in fact in one of our most beautiful counties and one that is most productive in the dairy area. Like all of God's children, all of Vermont's counties are beautiful. All are productive.

But Mr. Rikert has just said basically a number of the things that I have heard on my weekly trips up to Vermont in talking with dairy farmers.

We had passed over Commissioner Graham because I know that you had wanted specifically to be here and to hear him when he testified. I know that you were tied up at another committee matter at the same time. So, I would now yield to our distinguished chairman.

The **Chairman**. Thank you Mr. Chairman, I appreciate it very much. You just passed over Jim Graham. If you will look at him, it is hard to pass over Jim Graham.

I am a little bit hesitant to let Jim have the floor because he and my son had the same feeling about a basketball team in North Carolina. Jim Graham and I have been friends for a long time. We belonged to the same Sunday school class. He is a great Commissioner and a great public servant and I shall listen with great interest to what he says.

We welcome you, Mr. Graham.

STATEMENT OF HON. JAMES GRAHAM, COMMISSIONER OF AGRICULTURE, STATE OF NORTH CAROLINA

Commissioner **Graham**. Thank you, Mr. Chairman, Senator Helms, Senator Leahy. What did you say about Vermont?

Senator **Leahy**. It is an absolutely beautiful State, sir.

Commissioner **Graham**. You have about 11 or 12 or 13 counties. We have got 100 in North Carolina and they are all prettier than Vermont.

Senator Helms, I am very grateful to you. Mr. Chairman and distinguished members of the subcommittee, it is an honor to appear before you today.

I do not envy the task that you have before you. You and your colleagues here have a difficult role, Senator Helms, in legislating a fair and equitable solution to these problems. And I see a lot of people around this room listening to these problems and a lot of them are more knowledgeable than I am.

The State of North Carolina operates a State-regulated milk commission, a regulated dairy program through our State milk commission program. This program is a part of our State department of commerce and not a part of the department of agriculture which is under my jurisdiction as commissioner of agriculture. Therefore, I appear before you today on behalf of the dairy farmers and the dairies of our State of North Carolina and not in an effort to preserve a program operated by my agency.

It is not my purpose today to endorse any single legislative proposal that has been submitted to the Congress. I feel that you must select the approach that will fit the needs of the entire country while recognizing regional characteristics and differences. I have discussed this time and time again with Secretary Block and I recognize his problem.

Your hands cannot be tied if you are to find innovative solutions to the complex problems impacting on the dairy industry. However, I do want to emphasize and point out but one legislative item and that, I feel, is imperative and must be quickly dealt with, that is the dairy assessment program that is now being implemented by the U.S. Department of Agriculture, not the North Carolina Department of Agriculture.

This is clearly the wrong approach to the problem and the end result may well be the long-term decline of the dairy industry in many sections of our country and particularly my State of North Carolina and the State that Senator Helms ably represents is one of the States that may be so affected.

Now the neighboring States could well suffer similar declines—South Carolina, Georgia, Alabama and all up through New England—but I will concentrate on the situation of my constituents.

In a study that was made in May 1982 by North Carolina State University, it said the cost of producing milk in 1981 was estimated at $17.36 per hundredweight in North Carolina. As you know, this amount is substantially above the Federal price support of $13.10. While the price paid in North Carolina is higher than the Federal price support level, approximately $15 on the average, dairy farmers in my State have been operating at a net loss.

The assessment program of USDA adds a tax or a cost or assessment, whatever you want to call it, that must be absorbed by the producer alone. Now then, if a producer is already operating at a loss, his losses are only escalated.

The North Carolina Farm Bureau has estimated that the average dairy farm will have to pay $16,525 per year in assessments under the program currently authorized in legislation. Use any computer or any calculation or any economic criterion there is, you do not have to tell those that are in the dairy business what that would mean.

Citing the same report, the Farm Bureau has determined the total annual deficit for the average dairy in our State to be $57,228.

Collections under the program would be between $15 and $20 million per year statewide.

These are difficult times. These are hard times for anyone engaged in agricultural pursuits or any operations, and the Federal Government is increasing the difficulty through programs of this type that are designed to curb Federal expenditures and not to address the problems of overproduction and resultant low prices.

A factor that is very important to dairy farmers in our part of the country is that of regional imbalances in the production and consumption of dairy products. In North Carolina, the State has regulatory authority over the production and the price of milk. There is no Federal milk marketing order in effect in the State. Every effort is made to insure that a state of overproduction does not exist.

The dairy farmers and the consuming public recognize the benefits of the system, and it works through the cooperative efforts of the farmers, the producers, the processors, the consumers, and the marketing groups. Federal purchases of North Carolina produced dairy items are practically nonexistent. Production and consumption are essentially balanced. Right now, our quota is to give away about 1 million pounds of cheese a month. And in one cooperative in the great State of Wisconsin, they take in 1 million pounds a day. There is nothing wrong with Wisconsin. That is just too much cheese.

Anyway, it is necessary that the membership of this committee look at regional and local imbalances in production and consumption in order to bring about a fair and equitable solution. Yes, there is a national problem, but it is one of the expenditures from the Federal Treasury and not one of an industry being out of control.

If you look at the entire country, most areas balance production and consumption. Those areas that are contributing the greatest amount to the problem should bear the greatest burden in the solution. To me, that is the only fair and equitable approach.

Let me give you an example of why this must be the case. Dairy farmers in our State, with State government sanction, balance production to meet demand. If the Federal Government implements a program which forces them to reduce production, they will no longer be able to meet the needs of the people of our State. It will then become necessary to import dairy products from other regions of the country. These regions have been contributing heavily to Federal purchases and will be able to expand their market areas and thereby receive an important additional benefit from the Federal program.

The very people who have contributed the most to the problem will be able to benefit from an increased market area, and it would be most difficult to ever regain a market area lost due to production shortages.

You must consider such scenes as you develop legislation. When you make an addition to the cost of production [illegible] you are not being fair, because the cost of production is not the s[illegible] all parts of the country and you may force severe economic [illegible] in ce[illegible] regions. If you force all producers to reduce pro[illegible] ferred to, you will not be fair because not all areas have surpluses of products.

The price-support level may be adjusted since regional and area differences in production and demand can be balanced by market influences. You may have to look at combinations of those approaches and you may have to look at production quotas. Now I know quotas does not suit a lot of people, but you may have to look at it.

You may also have to look to States that have programs regulating milk production and try to use some of their techniques. As a whole, the States with such programs do not contribute heavily to the Federal purchases.

You may also want to look and consider and think at setting price-support levels for grades of milk and adjusting those levels based on the amount of Federal purchases. You have a variety of actions from which to choose and you will have difficulty in finding the correct approach.

Let me say that you have a very difficult task ahead of you, and I do not envy you. You cannot depend on finding a solution that is going to please, as you know, Senator, all segments of the dairy industry and all parts of the country. You must concentrate on identifying those that contribute the greatest degree to the problem and determining methods of bringing production into line.

Now in closing, let me point out please three items that I feel are most important. First, assessment programs are wrong and should not be considered as a solution. Second, States that provide regulatory programs should be respected and not penalized for keeping production in line with demand. Finally, regional imbalances in production and consumption must be considered in the development of corrective legislation.

It has been a very genuine pleasure to come before you today and present my thoughts. As I indicated, you have a very difficult task ahead of you and I hope that I am able to contribute to your efforts. I hope to be able to help, if I can, in any way to find the right solution. I have met with my counterparts across the country on this and we all recognize the problem you have, and with the minds that you all possess, you will do the very best you can. And I thank you very much and thank you, Senator, for I know you came from a very important meeting here today and I appreciate it. And thank you, sir.

Senator LEAHY. Thank you. Mr. Chairman.

The CHAIRMAN. Mr. Chairman, I think you have perceived that our distinguished commissioner of agriculture is not difficult to understand. He has a reputation for saying what he thinks.

He is absolutely correct on the assessment problem and I would want you to know, Jim, that I have spent many hours conferring with all the segments of the dairy industry and it is sort of hard to pull that net in, but we are working on it and making some progress. I assure you that, as chairman of the committee, we intend to expedite as much as may be possible the resolution of it.

But, as you say, it is not a simple problem. The elements of the dairy industry are many and diverse. But I think everybody does understand that there is a problem and there are other problems as well. But this committee will, as soon as may be possible, begin to work on this and I hope that we can come up with something that will eliminate this assessment.

Commissioner **Graham**. Well, thank you, Senator.

And I would say this, since I have been the Commissioner in North Carolina, I have had more mail on this particular item. Now I could not go on home and turn the light on in my house because, I will tell you what, they are going to see that light go on up there on my farm. I have a lot of company but I recognize the problem, you know, and I have been shaved on both sides of my face with it and both sides of the lines and I just do not want my guts cut up and my throat cut.

You say I tell it like it is. Well, I do not know what it is, but we cannot stand it, maybe in Vermont but we cannot down in North Carolina.

Senator **Leahy**. I called a meeting the other day in my office, sort of a bipartisan meeting, and I mentioned this earlier this morning, and I asked Thad Cochran, Rudy Boschwitz, and Dee Huddleston to come by and Secretary Block.

They all came over and joined me for a good hunk of the morning and kicked around some idea of what we might do on this. They expressed concerns, as you and others have expressed, that you cannot have a new dairy program every 6 months or every year or something like that. At some point, you have got to have something with some continuity.

They asked the Secretary if it made some sense if we then got together with some of the Republican and Democratic leadership of the House too, as well as leadership among the various dairy groups, realizing that there is a divergence of opinion of what kind of plans might work around the country.

Of course, we will have these hearings and then we will get back together, that same group, with the Senators that have been working on it and the House Members that have been working on it and the Secretary, who said that he will devote whatever amount of time we want.

Your staff has been tremendous in being prepared to help in any way it can, and just try to come up with at least the outlines of something. I know we are not going to have everything that every single group wants, but again something that hurts everybody least, at least, and hopefully to have a program that we can put into place and stay in place for a while.

The frustrations that we receive in these committees is the rules, because of economic pressure or whatever else, keep changing all the time. We do know, as Mr. Rikert pointed out, the problems of lower production and that has got to be handled. You just cannot flip the rules back and forth every 6 months and expect farmers to stay in existence.

The **Chairman**. Well, you are exactly right, Pat. We have to come up with a logical and reasonable solution. We cannot continue to be like the fellow who loved his dog so much that when the dog got an infected tail, he did not have the heart to cut it off. So, he just cut it off an inch at a time, you know.

The dairy farmers deserve to know where they stand and what the situation will be. If we keep changing the rules of the game, there is no way that they can know. But I know you appreciate, as

I do, the time that all of these gentlemen have spent in coming here and sharing with us their ideas.

Mr. Commissioner, we always welcome you, sir.

Commissioner **GRAHAM**. Thank you.

Senator **LEAHY**. Thank you.

The next witness, Pat Patterson, from Green Mountain Federation and also one of the leading dairy farmers of the State of Vermont, like Mr. Rikert, is not one who speaks solely on the abstract of what we do. He still knows how to milk those cows and still knows what happens when something goes wrong on the farm. Pat, we are delighted to have you here before the committee and please proceed.

STATEMENT OF LLOYD H. PATTERSON, GREEN MOUNTAIN FEDERATION, BARRE, VT.

Mr. **PATTERSON**. Mr. Chairman, it is an honor to appear before you today to discuss a subject that is of such great importance to the future of the dairy industry in this entire country. It is a double honor to appear before the Senator from Vermont, whom I have had the pleasure of working with for the past several years.

We in Vermont are proud of Pat Leahy, and I would like all of you people to know that we are proud of the job that he is doing in Washington.

I appear before you today wearing several hats: That of a president of a small dairy cooperative; as president of a federation of cooperatives; as a member of a special task force created by National Milk; and as a farmer.

I would like to emphasize the point that I have for some time, and I still do, make my living as a dairy farmer. Today, I would like to speak wearing these many hats, if I may. I want you to know that I am not an expert who can expound on the many fine points of dairy policy. As I said, I am just a farmer. My testimony or my remarks will be crude. For that, I apologize, but I do not apologize for being a dairy farmer. I am proud of it.

I think that over the years I have seen and experienced many policy changes in the dairy business. I would like you to know that our dairy farm is very definitely a family operation. And I want to tell you, Pat, that my family knows the true meaning of a family farm and that is they stay home and do the work while I come to Washington. That is the true meaning of a family farm.

Senator **LEAHY**. We have somewhat of a similar situation in my house.

Mr. **PATTERSON**. My wife and I, my son and his family, and my daughter and her family operate about 900 acres and about 180 head of dairy cattle. So, I guess we really readily have to admit that we are part of the problem. We have operated this farm for 33 years.

I would like you to know that I am proud of the opportunity to be at least a small part of the solution. I told you that my remarks would be crude, but I did not tell you that they would be corny. Well, I am afraid they will because, Pat, I brought down a picture of my five grandchildren. They are all on the farm with us and the family and, Pat, Senator, I have five reasons that I am deeply concerned about the dairy industry. I hope that 33 years from now some of my family can still operate that family farm.

I want you to know that the groups that I represent recognize the need to correct their massive dairy surplus that is now before us. We believe that, as responsible citizens, that we have a responsibility to reduce Government expenditures of the dairy program. It would be folly for us to argue that our program should be spared while other programs of equal importance get the budget ax.

I am not suggesting that price support programs should be eliminated. On the contrary, I believe that the support program has served dairy farmers and the consuming public alike very, very well over the years. I want to see the support program continue.

I come from that part of the country known as God's country, Vermont, and I just found out why it is called God's country. I found out that God could not quite make it farming there alone. He needed some of us rugged Vermonters to help him. So, that is why it is called God's country. I did not know that until just a little while ago.

We are a State of mostly small family farmers. We are dairy farmers because the other agricultural opportunities available to us are practically nonexistent. I hope that you will consider the effect of your actions on a State such as Vermont. We hope that you will not take Draconian steps which will force our dairy farmers out of business. And we ask you to enact measures which will correct the problem over a period of years.

Last fall, Pat Leahy met with a group of dairy representatives back home in Vermont to discuss the dairy pricing policies. The meeting occurred after the enactment of the present law which provides for a deduction or an assessment of $1 or up to $1 a hundredweight. As a group, we indicated to the Senator that we were not going to seek court action against the assessment; although we did feel that it was not the best program, we felt maybe it was the best of the worst that was considered at that time.

We also felt that we should be positive and suggest a healthy and a progressive alternative to the existing law. During our discussion that day, it was suggested that no less than 5 cents of the assessment should be used for promotion with the remainder rebatable to those farmers who did in fact decrease production. Now Senator Leahy took a lead in promoting the concept of a positive incentive tied to promotion.

Now I want you to know, Senator, that initially I was opposed to the $10 diversion program. I have to tell you now that I support such a program. Why? Because I think it will work. I think it would be the quickest and probably the cheapest way to bring production down to a level that we could live with.

I also strongly endorse the concept of additional money for promotion of dairy products. I support that very strongly. We are told that the soft drink industry outspends us 49 to 1. UDIA has presented statistics indicating that an additional 17 cents per hundredweight for promotion could generate an additional 6 billion pounds of sales.

I am sure, Senator, that you and members of your committee have heard probably some criticism of UDIA, the mother organization of milk promotion. I would just like to tell you that I have been involved to a certain degree with UDIA since its inception. I believe that in UDIA we have the vehicle, we have the personnel, we have the desire, and we have the ambition to do an even better job than we are doing today. Let us strive to provide them with an additional funding which they so justly deserve.

I believe that through increased promotion we farmers can accept more of the responsibility of correcting the surplus problem which now confronts us. I hope that you will adjust the present law to a level for increased promotion funds.

Now some have suggested that the level of price supports be drastically reduced. I personally do not support such a program. The figures that I have seen indicate that the paid diversion concept, together with increased promotion funds, will correct the problem more quickly than will a reduction in the price supports. Also I am very concerned about the farmers of my State without an alternative to dairying.

I said at a meeting not too long ago, really the only thing we can do with our land in Vermont is milk it. That is kind of corny too, but it is a fact. We have very few alternatives in agriculture.

I believe that you Senators will find that the paid diversion program for grain will increase grain prices to us dairy farmers and do more than a reduction in the price supports for milk in the short run. One well-respected economist in the Northeast made a statement at a conference last week that grain prices will increase by $25 per ton within a year. I think even he did not know how quickly we were going to get there. I believe our grain prices on our home farm have risen $12 a ton in the last 2 months.

Finally, I would like to urge you gentlemen to act quickly to correct the present uncertainty which faces the dairy industry. The dairy farmers in my State do not know what the future pricing policy will be and, therefore, they are responding in the only way that they know how, they are increasing production.

Until this year, production in Vermont had not increased substantially. However, this year we are witnessing increases in production, a reaction to the uncertainty which plagues the industry.

I do see some irony in our efforts and attempts to reduce production on American farms. It is kind of ironic that this effort should come at the same time when our Government is expressing deep concern over the productivity in other areas, in other sectors of the economy, such as the steel industry.

I urge you to assist us in finding a way of increasing the utilization of our product, not decreasing the productivity of our family farms.

Pat, I would like you to know that I will, and any of the people I represent, will gladly assist you in any way possible in developing a solution to this problem. Again, I thank you very much for the opportunity.

Senator **Leahy**. Thank you very much too.

I might state also for the record that one of the things that has helped me in my ninth year as a member of this committee is seniority. I could not help but think when I first came here that the chair way down at the end had my name in front of it, and now my name is right up here.

It is right there where Hubert Humphrey's was when I first came on the committee, so that I have spent some time here. Throughout that time the thing that I have found most advantageous has been that Vermont farmers—every single time I have ever called on them about any issue—have been willing to meet and have been willing to give me their very candid and very frank opinions, no matter what part of the State they were from, with absolutely no consideration of political party or anything else. They have always been there and have been very helpful.

You mentioned your grandchildren. It is not the least bit corny. We are talking about family farms. We are talking about dairy matters. These are family farms where people just do not go out normally as young persons who would go out and buy a farm and start off. It is usually something that has been in the family for generations before and want to keep it in the family. If they are not, when they're sold, they tend to be turned into nonagricultural uses. They never go back to agricultural use.

We are already losing agricultural land at a rate in this country which is scandalous. If we continue to lose our agricultural base, it will not be that long before we reach a point where we are not self-sufficient in agriculture in this country, whether it is dairy products or meat or grain, or what it is. If we are not self-sufficient as a nation, that has as much of an effect on our security as whether we build another aircraft carrier, one or two one way or the other, or so many types of submarines or anything else. It is a matter of our national security.

The United States is one major nation which has never at any time in a conflict, international conflict, been put in a position where it could be starved as a nation. We not only are able to produce for ourselves but export to others.

If you look at what has happened in areas of energy, for example, we have come to depend on imported energy and what is happening with changes in the rest of the world. We have been able to tighten the screws in such a way that we can better shape our foreign and defense policy to be able to continue the import of energy. Can you imagine what it would be like in this country if we had to do that in food?

Unless these policies become a heck of a lot better, family farms will disappear. People will not put in the 80-hour workweek for the low return and all the other problems to maintain it.

So I appreciate your testimony and I am glad you mentioned your grandchildren. I think it goes to the point.

Paul Stone will testify now. I would like to tell everybody that we are a small State. A lot of times people do not know about us. I was telling this to someone in the airplane once, as they were flipping through a magazine, Esquire magazine, and they said, well, here is an article about a Paul Stone, Orwell, Vt, and I said well, you know, once in a while somebody slips out of the borders.

Mr. Stone, go ahead.

STATEMENT OF PAUL A. STONE, ORWELL, VT.

Mr. STONE. Thank you very much, Senator Leahy. I want you to know I really appreciate the opportunity to testify today.

I do not come representing any official group in Vermont. I am vice president of our county Farm Bureau and chairman of the legislative committee. We over the years, and over the past 2 years especially, had numerous meetings concerning the dairy issue, what to do about it. Unfortunately, the American Farm Bureau does not back what the county Farm Bureau thinks should be the solution to the problem. So I cannot officially say from my position that I represent a large number of farmers. But unofficially I know I represent a large number of farmers, not only in our county but throughout the United States in the approach to the solution of this problem.

My wife and I own and operate a 70-cow dairy farm; together with our four children, we operate this farm.

The milk surplus problem in the United States today is causing all of us much stress, too much stress. It is time to solve this problem. I have been impatiently waiting for over 2 years for a solution so I can get on with the business of farming, so that I can make decisions about my farming future. I now sense there is a workable solution near at hand and I hope that our leaders, both dairy and congressional, can get together and come up with an effective program.

Farmers are among the most productive of the various industries in the United States. In 1900 one farmer fed six people; today he feeds 77. Our potential future production will dwarf today's agricultural output. Americans have not suffered food shortages at anytime during our history. Our capacity to produce is envied throughout the world. This productiveness must be preserved for it gives our country strength and security. Farmers have invested more in their farms than the 400 largest corporations in the United States combined. This tremendous investment and productive capacity contribute greatly to the strong U.S. economy.

Unfortunately, farmers have been too productive for their own good, and I think it will continue to be so in the future. We now have surpluses and low prices in nearly all commodities. This is not new. It has happened many times in our most recent past history, and we have cured these problems.

We are now indeed fortunate to have the productive American farmer providing us with surpluses and keeping our food costs down lower than any other country in the world. And I would like to emphasize that our food costs are, in fact, lower than any other country in the world. The American dairy farmer now needs some help to get out of a temporary milk surplus problem.

The Federal Government has a duty and responsibility to formulate sound agricultural policy and other policies that affect farmers. Those who argue that the Government should not be involved in agriculture policy and pricing decisions are not being realistic.

Unfortunately two recent ill-advised Federal policy decisions are at least partially responsible for the overproduction problem we have now. The first was the increase in the milk price support. The second was the embargo of grain, embargo of the sale of grain to Russia. The Federal Government has placed no limits on the amount of dairy products it would purchase to keep the farmer's price up. Then, in effect, the Government has placed an order for milk.

Now, after encouraging milk production, it seems to me that it is not fair for the Government to all of a sudden say we do not want that milk anymore, after farmers have geared up to produce it. And President Reagan seems to agree. While discussing the military industrial complex at his January 5, 1983, press conference, he said, and I would like to quote—this quote is taken from the Washington Post, a reprint of his remarks, "You can't say to someone who has gone into business purely to provide us with what we have ordered—everybody go home and wait a while—we're not going to take those things."

In other words, once someone has gone into business to produce for the Government, they should not be cut off abruptly. And I think, unfortunately, dairy farmers fall into this category today, and we should not be cut off abruptly by the sharp price support cuts desired by the administration. I hope in the future President Reagan will treat dairymen as fairly as he does the defense contractors.

Unless support price cuts are very severe, in the order of $2-$3 per hundredweight they will not reduce production, at least not quickly. Fred Webster, Vermont Extension Service economist, feels a $1 price support cut will take 2 to 3 years to reduce production, but only if grain prices increase. This double blow of a price decrease and a cost increase could force many farmers out of business quickly.

It should be pointed out that the price support program has been frozen at $13.10 since October of 1980. At this time, the farmer's purchasing power or the farm price of milk was around 75 percent of parity. Today that has decreased to about 63 percent of parity. This sharp reduction of purchasing power has been coupled with an actual cash price decrease of 29 cents per hundredweight in the past year for Vermont dairy farmers. Today, even though the dairy farmers' purchasing power is down drastically, milk production continues to increase at the rate of 1 to 3 percent a year. This does not seem to make a very strong argument that price cuts will reduce production.

Those people who are currently pressing for a $1 price support cut have not proven to me that it will reduce Government spending or that it will reduce the consumers' cost or that milk production will decrease. In fact, the numerous farmers I have heard from and talked to plan to increase production if the price is cut.

The New York Times accused dairymen in June 13, 1982 in an editorial of trying to set up a milk cartel. This was just a year ago, less than a year ago, to become an OPEC for milk by quote "using government power to fix price supports by restricting output." This is a ridiculous charge. The desire of dairymen then and now is to reduce the overproduction of milk and to stay in business at the same time. Price gouging is not the farmers' intent. They simply want a fair price for their production. Over the years the consumers' cost of milk has risen more slowly than the overall rate of inflation. Consumers are getting a good deal now and I am sure dairymen want that to continue.

If the New York Times would look at the dairy situation realistically, they would see that milk price cuts, which they endorse, could in fact lead to a milk cartel in the future. The number of farmers in the United States has been declining rapidly and if price cuts are enacted, it will cause a more rapid decline in the future. In 1950 there were about 2 million farmers. Today, there are about 300,000. If that decline continues, it will not be long until there are less than 50,000 dairymen in the United States. It would then be possible to organize dairymen and form a milk cartel something I would not look forward to. It is time now to formulate Government policy that will keep farmers in business so they could continue to supply us with a bountiful supply of milk.

A paid diversion program I think will do this or some other program of an incentive nature such as your 95/5 plan that you introduced. These programs can be put together and they will reduce milk production. This program would pay dairymen not to produce or have some kind of an incentive for not increasing production, and be similar, say, to the PIK program which is now in effect for grain.

It seems to me that since feed grains, wheat, and cotton now qualify for such a program, then obviously milk should also qualify. Will dairymen participate? A national survey printed in Hoard's Dairyman, March 10, 1983, indicates that enough dairymen will participate in a voluntary paid diversion program to curb overproduction. Now I think there are several points that should be considered when setting up a program.

I am not backing any particular plan. I am backing a concept of an incentive to reduce production.

The program should be national in scope and equitable to all dairymen. We can now approach this on a reasonable basis. Milk can now be hauled long distances and it is, in fact, hauled long distances. It is very easy to buy ice cream in Vermont that was made in Minnesota, unfortunately. Trucking expenses are going to reduce with the advent of the double trailers on interstate highways. I can tell you that farmers in New York who have access to double trailers today for shipping milk 40 cents less, at less to Boston than I can, for the same distance. That means approximately $5,000 of reduced farm income to make 40 cents a hundredweight.

The other argument against regional programs is that other commodity problems are not solved on a regional basis. The PIK program is not a regional program. I want to point out to those people who are from the South who are saying they produce simply for their market, that have produced milk simply for their market, that we drink their orange juice, we eat their soybeans, we eat their corn, we smoke their tobacco, and so on.

It seems to me that fair is fair. If we support them, they should be supporting us. About 90 percent of our grain purchases come from out of State.

The program should offer an incentive, such as a paid diversion, to encourage dairymen to reduce production. The program should be voluntary and it should be simple. It should also discourage individual farmers from increasing production. The program should not cause major shifts in the current geographic spread of production. Cows removed from herds that participate should go to slaughter.

I think farmers should have the option of participating 100 percent, that is to stop production entirely and be paid, say, for a year's production, but be required to stay out of production for a period of years, maybe even 5 or even longer.

The program should be short term. The program should address the long-term future problem of milk pricing and how to prevent future surpluses. Finally, the program should require all dairymen to help in milk promotion. I think this is very important. I would like to point out here that most farmers in Vermont and New England, for that matter, now contribute 11 cents per hundredweight to promotion. If this were a national program on the order of even 15 cents per hundredweight, a considerable amount of milk could be sold.

I would like to thank you again, Senator, and thank you especially for your leadership on the dairy issues and other issues here in Washington.

Thank you.

Senator **Leahy**. Thank you very much. I appreciate your being here.

Our next witness is Dr. Stammer, and I understand Phil Nyberg will fill in for Jay Goold, and then Fred Douma will testify.

Dr. **Stammer**. I too am very pleased to have the opportunity to testify before you and I am not from Vermont.

Senator **Leahy**. It sounds like we may hold that against people here, but we really do not.

Dr. **Stammer**. I am from New Hampshire. I do spend a lot of my income in Vermont.

Senator **Leahy**. Keep Vermont green. Bring money.

STATEMENT OF DR. RICHARD STAMMER, REPRESENTING NORTHEASTERN COOPERATIVE COORDINATING COMMITTEE

Dr. **Stammer**. I am the manager of economics and communications for Agri-Mark, Inc., and we do appreciate the help you have given to the New England Dairy Institute.[1]

I am testifying on behalf of the Northeastern Cooperative Coordinating Committee at the request of Louis Longo, who is the chairman of that committee. The Northeastern Cooperative Coordinating Committee is composed of 13 member cooperatives and represents more than 25,000 dairy farmers in the Northeast. The Northeastern Cooperative Coordinating Committee unanimously supports the dairy compliance and milk promotion program developed by the National Milk Producers Federation.

This legislation will address the problem of surplus milk production and will reduce the cost of CCC purchases at a faster rate than any program we are aware of.

This program will also reduce milk production in the most economically efficient manner since it will allow each producer to evaluate his individual situation and make the appropriate management decision. These decisions will be made taking into account the individual farms' economic situation regarding available land, family labor, capital stock, family situation and cash flow demands.

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[1] See p. 223 for the prepared statement of Mr. Stammer.

Considering these factors, many producers will choose to reduce their production in favor of a $10 per hundredweight diversion payment for the percent of production reduction below their base. A paid diversion program will enable farmers carrying a heavy debt load—most probably young farmers—to cull their herds at a heavier rate, reduce their debt loads, and still maintain the needed cash flow to stay in business with a more efficient herd.

For other producers, those of retirement age and those who would like to get out of dairy production for other reasons, this program would provide a retirement incentive. This is no different than retirement incentive programs recently instituted by such companies as Kodak and United Technologies. Still other producers will decide to maintain their higher levels of production and receive a reduced price.

A program that merely cuts prices to all producers does not allow the range of management discretion provided by the dairy compliance program and will put many producers in a situation where they must increase production to maintain an adequate cash flow and just exacerbate the current short-run supply problem.

Such a program would also penalize those farmers who have not increased production. Approximately 25 to 30 percent of our farms in the Northeast fall in this category of farms that have not increased production. These farms are primarily family-owned and family-operated farms. It is not equitable to penalize these farmers who have not contributed to the national surplus problem. A price support cut would hurt these farmers and the dairy compliance program would not hurt these farmers who have not increased production.

The program is not as complex as it initially sounds and is quite simple to administer. Only those producers who qualify for either a reduced application of the surplus percentage or a diversion payment would need to have their bases certified. This simple certification could be made through local ASCS offices. In the past, soil conservation practices, disaster payments, and even the current PIK program were administered in a similar fashion. I can assure you that the dairy farmers I talked to feel that the later programs are much more complex than the dairy compliance program.

This type of program is politically acceptable to the dairy farm society, will save taxpayers approximately $1.4 billion in its first year, and would reduce CCC purchases to a level of 2 billion pounds of milk equivalent.

A price support cut would be politically unacceptable to the majority of dairy farmers, reduce costs to the taxpayer only about $400 million and still leave the CCC purchasing around 10 billion pounds of milk equivalent of product.

Once the dairy surplus problem has been alleviated, dairy price supports should again be based on a responsible level of parity, probably in the 60- to 62-percent range, to assure the American consumer of an adequate supply of milk and dairy products.

Because of the importance of milk and dairy products in the American diet, it is only right and justified that a national fund for advertising, research, and promotion be established and financed by dairy farmers. Such a program will improve the dairy economy through increased demand while telling a balanced nutrition story to the American public that is deficient in its consumption of calcium and other important nutrients found in abdundance in milk and dairy products.

At present, Agri-Mark requires all its members to pay a 11 cent per hundredweight deduction for promotion. That is how strongly we feel about promotion.

The dairy compliance and promotion program contains a responsible approach to the serious oversupply of milk now facing the Nation. It addresses this problem and the Government expenditure problem in a much more direct and effective manner than just cutting price supports in that it provides producers with a positive incentive to cut production.

When this program ends, a bridge to parity should be provided to assure producers of price stability that will result in consumers being assured of an adequate supply of milk at reasonable prices.

On behalf of the 25,000 dairy farmers represented by the Northeastern Coordinating Committee, I ask that you give serious consideration to the dairy compliance and promotion program.

And I thank you again for this opportunity to speak today.

Senator COCHRAN. Thank you very much, Dr. Stammer. Phil Nyberg.

Senator Leahy, do you want to make any comments?

Senator LEAHY. No. Only this, Mr. Chairman, I am advised that there is another group from Vermont in my office and I am going to step up there. Senator Helms was in earlier for part of the testimony. We had some discussion of the meeting that you and I and others have had last week with the Secretary of Agriculture.

I think everybody who has testified here all concur that they would like to see us come up with something, that it is a critical matter. And I think I am safe in saying that everybody feels it is something where the rules cannot keep constantly changing. We are going to have to have some kind of a formula that we can go with.

So I will discuss with you later the testimony of the ones we have heard before, if you will be kind enough to fill me in on what you pick up from this point.

Senator COCHRAN. I will certainly make that effort. And thank you so much for chairing here.

Our next witness is Phil Nyberg, testifying on behalf of the League of California Milk Producers.

STATEMENT OF PHIL NYBERG, PRESIDENT, LEAGUE OF CALIFORNIA MILK PRODUCERS

Mr. NYBERG. Thank you, Mr. Chairman.[1]

I appreciate the opportunity to be here and speak on behalf of the league. My name is Phil Nyberg. I am a small dairyman from the northern part of California, and I am currently president of the League of California Milk Producers.

I represent roughly 1,200 producers in California who produce approximately 18 million pounds of milk daily. I guess, as I sit here today and listen to lots of the approaches to solving our problem, it reminds me of a story of a couple of Californian hikers, and I will not take much time with this but I think it is apropos. They encountered a grizzly bear and, of course, they were in their hiking boots and had on backpacks, and when they saw the bear they ran as rapidly as they could. Upon the point of exhaustion, one of them stopped, emptied his backpack and threw on a pair of sneakers. At that point, the second hiker caught up and said, "What did you bother doing that for? We are never going to outrun this bear anyway." And then the first hiker said, "Well, if I can outrun you, I do not have to be worried about the bear".

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[1] See p. 226 for the prepared statement of Mr. Nyberg.

I kind of think that is the approach that some of us are taking to solving the dairy problems.

We, in the League of California Milk Producers, support a voluntary incentive plan, utilizing a 50-cent assessment and I would point out that this could be the same assessment that is provided for under existing law for funding.

We support this concept because it provides more relief to the Government budget process at the least cost to the dairy industry. We have heard that the administration wants a decrease in the support price and recently that they have indicated that they can live with $1½ or $2 billion expenditure for a year or two to allow a decrease in the support price function. I seriously doubt that, but if it is true, we would urge the Congress to adopt an incentive payment program funded by CCC funds as opposed to an assessment. We think that this would function much more wisely.

Incentive payments can remove nearly twice as much product from the market per dollar spent than the current product purchasing system. We believe that $8 to $10 a hundredweight incentives would be as effective as opposed to the $17 now spent to purchase and store processed products.

I would point out that we would propose to exempt existing producer/distributors from participation in this program.

We feel that the current and future flat price of milk, which will stand at least 4 years even under current programs, when combined with even moderate inflation, will solve the overproduction problem. The only question is how extensively will the Government participate while awaiting this solution?

Our economists indicate that we are looking at as much as 80 cents per hundredweight in increased cost of production due to rising feed costs. The PIK program seems to have had an effect already. I feel sure that changes in currency strengths will raise exports of grains more than most have imagined over the next couple of years.

We support this because, we would rather see our overproduction eliminated by raising the status of the rest of agriculture, as opposed to reducing the dairy farmer down to their starvation levels.

But we should dwell on solutions that would increase consumption of our nutritious product, rather than have decreased availability. We whole-heartedly support a nationwide promotion checkoff. California has been a leader in this field for more than a decade, 12 or 13 years now, and currently are spending $20 million annually on production promotion. We think our results are convincing.

We urge the reinstatement of the school milk program for the benefit of our youth, as well as for the benefit of the dairy industry.

Finally, we urge this panel and all of Congress to support the dairy industry's effort to raise national standards for solids, not fat, in our milk products. We are not urging the adoption of a new untried idea, but rather one which has the history of 20 years of success in California, increased promotion of standards, of increased per capita consumption of dairy products in California to well above the national average. Using California history, and I might add that these are numbers, that are audited by the State Department of Agriculture, we project that on a nationwide basis 400 million pounds of solid not fat would be used annually to fortify milk to higher nutritional levels.

We understand that the CCC has in storage something on the order of 1.3 billion pounds of solids, not fat, and assuming that these storages were accumulated over a period of a few years, we submit that they would currently be within acceptable levels had nationwide standards been at more nutritious and at much more palatable California levels.

Our proposals will meet budget requirements. Participation is voluntary and less costly to the industry than some other approaches. It provides the least cost penalty for any young dairyman entering the industry. We think also it is very important that the refinement of a dairy specific parity be a concurrent ongoing action that, once the situation is straightened out, it will prevent its occurrence.

In closing, I would like to reiterate that we urge this body to concentrate on solving the dairy problem by improving the lot of all of America rather than relegating the dairy farmer to a bankrupt existence.

Thank you.

Senator COCHRAN. Thank you for your statement, Mr. Nyberg.

Fred Douma, testifying now on behalf of the Milk Producers Council and the Southern California Dairy Association. You may proceed.

STATEMENT OF FRED DOUMA, EXECUTIVE VICE CHAIRMAN, MILK PRODUCERS COUNCIL FOR SOUTHERN CALIFORNIA, ALSO REPRESENTING SOUTHERN CALIFORNIA DAIRY ASSOCIATION, ONTARIO, CALIF.

Mr. DOUMA. Thank you, Mr. Chairman, for the opportunity.[1]

My name is Fred Douma. I am a dairyman operating in Ontario and Hemet, Calif. I serve as executive vice chairman of the Milk Producers Council for Southern California.

My testimony today represents a position of over 67 percent of the milk production of the State of California, the No. 2 milk production State of this Nation, the No. 1 consumer State.

I have been authorized to speak on behalf of the groups listed in my witness statement.

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[1] See p. 230 for the prepared statement of Mr. Douma.

A dollar drop in the dairy price support is the most responsible direction Congress can and should take. Dairymen could then plan their production with the certain knowledge of lower prices in the future. Reduction of the replacement herd could take place over the next several years. If feed prices were to increase as anticipated in the next 12 to 24 months because of the PIK program, a much faster decline in milk production would be realized.

This reduced dairy support price would lower the cost of dairy products to the consumer. This would stimulate commercial sales of all dairy products, especially in sales of manufactured dairy products, that is, butter, nonfat powder and cheese.

In a paper presented at Dairy Farm Finance Cow College by Howard McDowell, an assistant professor in the Department of Agriculture Economics VPI and SU, there would be as a result of a $1 reduced price a 52-percent reduction in Commodity Credit Corporation purchases of dairy products in the first year. At only a 50 cent reduction of the support price there would be a 28-percent reduction of CCC purchases in the first year.

This was developed by using supply and demand price elasticities as developed in a study noted as exhibits of my written testimony.

The consumer benefit realized by a support price drop is a very beneficial and necessary part of the dairy price support program. A support price reduction would lower the cost of milk received by processors for all classes of milk. It would leave the ability of the open market to determine the price of milk used for fluid purposes in the different marketing orders.

Any other program would cost the consumers which live farther away from the major production areas more for every gallon of milk purchased.

The two milk production reduction incentive programs offered here today for this committee's consideration would in fact raise the price of fluid milk from today's level in major consumption areas which are of some distance from the major production areas of the Nation.

This would happen if the basic premise of these programs was fulfilled, that premise being equal reduction of production among all areas of the Nation.

When a supply of local milk production of a large consuming area is reduced, then any shortfall in local production needed for fluid demand would have to be replaced from supply areas. The transportation costs for this fluid milk, plus the cost of the milk purchased in a supply area, is greater than the price paid for local production.

We do not support a class I price freeze. I repeat what I said earlier in my testimony that the open market would determine the level of price with the fluid milk in each marketing order. A basic economic premise, which should not be forgotten, is that time and location of a product has a certain real value.

We believe in the dairy price support program. It has given stability to the dairy industry while at the same time our consuming public has received dairy products for a reasonable price. In fact, the price of milk has risen less than the price of all other food products since the passage of the Dairy Price Support Act of 1949.

We also believe at this time an adjustment in the support price is necessary. Because of a low feed price ratio, milk production is out of balance with demand. This could start to change as the PIK program on feed grains begins to affect the cost of producing milk.

We would urge your serious consideration to phasing in a dollar on a 50 cent, 25 cent, 25 cent basis. The first 50 cents immediately with the other two 25 cent authorizations on 6-month intervals if CCC purchases are not below 7½ billion pounds of milk equivalent annually.

We support a recovery of that dollar drop in the reverse order when purchases are below 7.5 billion, 5 billion and 3 billion respectively. This would give the dairy industry time to react to higher feed prices, as indicated by the current feed grain price movement ever since the announced PIK acreage participation.

High support prices and low feed costs have caused high milk production and certainly a lowering of the price and the rising feed costs should and will reduce the production. This is the surest long-range solution to our current problem.

The dairymen I represent oppose the National Milk Federation's Dairy Surplus Reduction Act which sets a national base as the 1981–82 milk production, freezing the price and payback of $10 per hundredweight for a 5- to 30-percent production reduction.

Further, we oppose a plan developed by a coalition of Wisconsin dairy leaders, the VIP plan, which again would pay dairy producers $10 a hundredweight for voluntarily reducing milk production. An assessment program of 50 cents would provide funds for the Government to pay farmers for cutting back the production 5 to 30 percent. Again, no savings to the consumers. Support prices would remain at current price. The assessment per hundredweight could, and most likely would, be passed back to the consumer in higher store prices on fluid milk because of over order premiums charged to milk processors.

We support the repeal of the current authorized assessment plan. This tax on milk production has no consumer benefit and, conversely, a probable consumer cost. Any consumer tax savings from the collection of the assessment would be more than offset by maintaining current prices and in some cases higher prices than those which exist today. In reality, the current supply of milk dictates a lower producer price and therefore a lower consumer price.

There appears to be two directions for solving the production problem presented here today. One would be incentives to producers who reduce production with no consumer savings and maintaining an artificially high consumer price.

The other direction is the lowering of the dairy price support by $1. This has direct benefits to all consumers through lower prices of dairy products. The lowering of support prices seems to have the greatest benefit and is also the simplest way to solve the problem before this committee today.

As dairy producers, we urge your serious consideration to this matter and request your prompt action so we can start to solve the national overproduction problem.

And off my written statement, this morning when I was listening to the $10 programs being presented, I quickly put some figures of my own. And, yes, they will reduce production quickly.

I have three problems with them. I am a family farmer. I operate with a brother partner on one operation and a third brother on another operation.

And the second one is I am a Republican, I am a capitalist. That income of 30 percent reduction of production I would gain $876,000. I have never made that much in 1 year yet.

Thank you.

Senator **Cochran**. I wonder if there is any way to attribute the increase in sales in California, the increased consumption that you have brought out in your testimony, to the milk standards, the solid content, the fortifying of the milk, as compared with the promotion that is an ongoing effort that you say you are very proud of there. How do you know which is causing consumption to increase and by how much can you contribute this success to one factor or the other?

Mr. **Nyberg**. I do not think anybody could precisely answer that question except to say that the standards were increased on a gradual basis for 3 or 4 years, but essentially 20 or more years ago, and the trend toward increase in consumption occurred at that time. The very active promotional program probably began in about 1971; 1970, 1971.

So, I think they both play a role but that the trend began before the promotion began.

Senator **Cochran**. How much increase in consumer costs is reflected by the change in the standards? Milk is more expensive, is it not, with——

Mr. **Nyberg**. Our numbers would show that, depending upon the type of milk that you are talking about in terms of whole milk, negligible, a half cent a half gallon. In terms of 2 percent fat and 10 percent solids of the product as opposed to the rest of the Nation's low-fat product, which would be substantially lower in solids, probably in the area of a nickel a half gallon.

But to relate it back more to national consumption patterns as reported by various groups, including USDA, the total—and using the numbers I just mentioned in relation to average consumption patterns—the total increase per year would be about $1.27 per individual per year. And taking a 2.7 average family size, that is a little over $3 a year on something like a $26 or $27 food budget. So really it is a negligible factor in terms of consumer cost and in terms of any digressing effect on milk consumption.

Senator **Cochran**. There seems to be a wide range of opinion in California about whether or not to support the base plan or a reduction in the support price. Why is that? Is there an explanation for the disparity of opinion that we are hearing from the State?

Mr. **Nyberg**. I think if you ask 10 people that question, you might find 10 different answers.

Senator **Cochran**. Well, they have the same thing in Mississippi. I mean, you know, there is a difference of opinion among dairy farmers. You can get three or four different strongly held views recited to you.

Mr. **Nyberg**. We think, as an example, quoting Dr. Robert Jacobson of Ohio State University who is recognized as one of the leading dairy economists in the country, that a $2 drop in support would mean a 1-percent increase in sales. Whether he is right or wrong, I do not have any idea, but that is a quote that I heard recently.

Assuming that is correct, that 1-percent increase would come from the lower priced products, certainly not from fluid milk. So we do not feel the industry would benefit very much from that.

Second, you know, we feel that with a diversion program, you can head off the production of an unwanted product with a lot less dollars as opposed to buying it. You know, our numbers show that it costs the Government $17 a hundredweight to buy, store, and get rid of dairy products and we think for half of that amount you could prevent the production in the first place and still keep the mechanism in place to respond to the public when the need is there.

Some areas in California are primarily servicing the fluid market and they would hope that they are not affected by the bottom price.

Mr. **Douma**. And to add to that, California is two States. It is like the Southeast and the Midwest. The southern California area is a highly populated area of historically high fluid usage, basically the same scenario between the Southeast, what you heard here today, and the rest of the State exists.

Well, we did one thing different in California already. We divided up that usage 12 years ago, the class I usage and allocated quota. It is a salable quota. You can transfer it between producers at a price that is up to the producers.

Those that handle this quota, and this quota was on a production history during that time, that quota or that production history is now today all quota. Since that time, to a national price the milk production has increased where only 54 percent of the milk today is quota milk. So we have got 46 percent that was added to our production to a national price.

Now you are basically hearing from producers that hold considerable amount of quota, saying, fine, if you want to produce at that national price, go ahead. In the meantime, our State with a State order, we have taken our class I price from a $2.50 blend or $2.50 spread between 1 and the bottom, about 72, 73. We are down to $1.33 spread because the State can control our class I price. The bottom price is a national price. So, they really could not reduce it much below the national price.

So to give the consumer most of the benefit, they have continued to lower or stop the increases as greatly as they should have been on our class I price. Now we are saying the national price has caused a problem. The producers that have produced to that national price should react to it. The majority of the producers that are holding quotas really are not producing to that national price. They were producing to a California price, which is much lower.

Our price for our fluid milk in California on a statewide average is identical to the market order price in Eau Claire, Wis., which is supposed to be the milk hub of the Nation.

Senator **Cochran**. Did everybody understand that?

I am sorry that I missed the testimony from North Carolina and Vermont, and up in the New England area, the Northeast area. Senator Leahy has discussed a rebate program with us, as we have met and worked over this problem and talked about the possible solutions that are available to us. Did anyone here testify in support of that, a rebate type scheme of 95 cents on the dollar being rebated?

Mr. STONE. Senator Cochran, I testified trying to develop a concept of incentive to reduce production, whether it be 95/5, a paid diversion by National Milk or whatever. It seems to me that we need an incentive to reduce production, not to be clobbered by some price cut.

Senator COCHRAN. Yes; well, in your State if the Congress enacted the federation plan and you were able to cut production by 30 percent, would the farmers in Vermont all do that?

Mr. STONE. I think there would be widespread participation. There is no question in mind that there would be, especially with the price of grain——

Senator COCHRAN. As high as it is.

Mr. STONE [continuing]. To do what it is supposed to do.

Senator COCHRAN. Is that true in other areas? For those of you who are here in this panel, what is your expectation about the percentage of participation among the dairy farmers in your area?

Mr. PATTERSON. I think I feel almost exactly as Paul does. I think we would have widespread participation. I would hesitate to put a figure on it. I too testified, Senator Cochran, on the incentive program and I want you to know that I feel very strongly that promotion must be a part of it too. I feel very strongly about that.

I guess maybe I do not feel so strongly as to what we call the program, whether it is an incentive or rebate or a paid diversion or what. I do feel, however—and I had trouble bringing myself to believe this, but I do feel that the paid incentive program will get us out of the woods faster than any program that I have heard of.

Senator COCHRAN. What about you, Mr. Rikert?

Mr. RIKERT. One thing I feel pretty positively about is when you asked the question what is going to happen to the consumer price, well when I sell a beef cattle at home, and I do not get much on the farm, I say, wow, man, I must be able to go to the store and get it pretty cheap. It does not change much in the store. I do not think probably that it is going to change much as far as the price of milk is concerned in the store and what we do here.

One thing I think we need to do. Consumers are very important. If they did not consume it, we would not be here. But it is not what they pay for it. It is what is in it and that is what we have got to get across with advertising.

The soft drink industry, they are going around making all kinds of claims about how little they have got in it, well like one calorie.

Senator COCHRAN. And no caffeine.

Mr. RIKERT. And we have got a lot in our product and we have got to get the word out. I think that is the one thing that everybody agrees on. We have got to increase the promotion. I also think two or three people here mentioned the increase in the minimum solids. I think that is a pretty firm base.

As far as what percentage in Vermont will go along with decreasing their production, I do not think guys really like milking more and more cows and they do not like running around on a tractor with more and more acres. But it seems we have to to survive. And I think that a lot of guys would just as soon cut back and not have so many areas to cover.

Senator COCHRAN. What is your idea of that Dr. Stammer?

Dr. STAMMER. I think it would get pretty widespread participation. I think you could look at dairy farms and how they had to increase relative to their base. Those that had not increased very much would probably participate. Those that had increased relative to their base, maybe 50 percent, they probably could not afford to participate because they would have to cut back 50 percent before they could get into the program, before they could get any benefit from the program.

So I think you would have widespread participation and it would be probably the majority of farmers who have increased or who have not increased by small amounts over their bases.

Senator COCHRAN. I appreciate very much all of your attendance, your being here to help in this hearing. I think the committee is going to be working very hard to get together on some program that, we hope, will reflect commonsense and good judgment and be a real contribution to solving this problem. And your being here and helping us with your experience and your thoughts is of benefit to us.

Thank you very much.

Our last panel of today's hearing will include Winn Zundel of the Utah Farm Bureau Federation; Don Haldemann, president of the Wisconsin Farm Bureau Federation; Ralph Mitzel, New York Farm Bureau; Howard Reilly, New York Grange.

I apologize if I mispronounced any of your names.

Let us begin with Mr. Zundel.

STATEMENT OF WINN ZUNDEL, UTAH FARM BUREAU FEDERATION

Mr. ZUNDEL. Mr. Chairman, my name is Winn Zundel. I am a Utah dairyman and chairman of the Utah Farm Bureau's Dairy Advisory Committee. I am happy to be here to represent the Utah Farm Bureau Federation and its 18,000-plus member families, which include 1,200 dairymen.

I realize that the Utah dairy herd represents less than 1 percent of the national dairy herd, but to Utah dairymen like myself they represent a way of life for our families. Because dairy produces more than a quarter of all agricultural income in our State, all citizens have an interest in the future of our dairy industry.

That future now depends on you and dairymen like myself jointly finding a solution to the massive surplus problem. We believe the 50 cent per hundred assessment is not a viable solution because it has several serious flaws which we went over and over here today. I think one of the most serious is that the 50 cent tax penalizes dairy producers for overproduction but does not help consumers realize lower prices or at least a stable price which should have resulted from the huge surplus.

As dairymen, we believe that Congress must promptly adopt legislation which will return our industry to a supply and demand basis. The longer Congress avoids addressing the surplus problem directly, the more prolonged and severe will be the pain of the

Utah dairymen. The dairy price support program and the CCC which purchases surplus products was never intended to be the major market for dairy products, which it has become since 1977. That trend must be reversed before the surplus can be reduced. Dairymen cannot continue to produce for an artificial market.

Dairymen across the Nation will have to do their part by strengthening existing markets and developing new markets for their products. Utah dairymen have spent a great deal of time and money to cultivate real markets for their products. Some of this has been done generically through a State promotional effort. Each processor has also built their marketing channels and reputation. The Utah dairy industry is marketing to real consumers. We believe this is how all dairy products must be marketed, rather than relying on Government purchases at an artificial price which creates surpluses at taxpayers' expense.

A dairy price support program which phases out artificially high prices would also benefit consumers. There is strong evidence that sales of processed dairy products, such as cheese and ice cream, will respond to a slight price reduction when coupled with promotional efforts. During 1982, consumers saw the smallest rise in dairy product prices since 1965.

The National Dairy News, a dairy processor newspaper, credited 1982's stable dairy prices with helping to—and I quote—"push commercial sales at the retail level up substantially," unquote. These increased sales of dairy products were realized by simply keeping the retail price increases of dairy products below the price increases of substitute foodstuffs. By lowering the support price, retail prices would have the opportunity at least to remain stable relative to other food prices and perhaps would even be reduced.

We agree with the processors, and I quote, "Stable retail prices and more aggressive marketing and merchandising contributed to the 1982 sales gains and particularly to the sharp increases during the fourth quarter," unquote. A lower support price would not only save taxpayer dollars while bringing the dairy industry back to the real world, it could also help increase consumption.

We believe a solution can be found without resorting to a federally allocated base if the laws of supply and demand are again allowed to regulate the marketplace. We agree with Secretary of Agriculture Block, who referred to the national base determinations required with the second 50 cent assessment as quote, "another mistake," unquote. On such a base, Secretary Block said, and I quote, "This is too much work and regulation to impose on dairy producers. If we are going to spend that much time and energy on a dairy plan, I want it to be a plan that will produce some positive and lasting results. I am certain Congress does not want to make another mistake," unquote. The Utah Farm Bureau Federation agrees.

We urge Congress to adopt the American Farm Bureau's adjustable support price proposal. The dairy price support program must once again be made flexible as it was intended to be in the Agricultural Act of 1949. Congress can act now to allow the support price to be lowered gradually and begin to reverse 39 consecutive months of herd buildup which has caused the 14 billion pound milk surplus. If such a support price reduction is gradual, but certain, the correct adjustments can be made without undue hardship on sound dairy managers. We urge Congress to act now.

Thank you.

Senator COCHRAN. Thank you very much.

Before we go further, I think I may just ask you for the record to outline the phasing in steps recommended in that plan.

Mr. ZUNDEL. Well, I cannot speak for the national, but I myself am in favor of 50 cents and the Utah Farm Bureau Federation is in favor of a program such a 50-cent reduction for a period of time, 6 months. With the PIK program and the increased prices of grain, who knows how far we are going to have to go. We do not advocate going any farther and creating any more hardship on dairy farmers than we need to. So, we need to attack the problem.

Senator COCHRAN. You would give the Secretary discretion to adjust downward the support price over a period of 2 or 3 years?

Mr. ZUNDEL. Downward or upward, depending on CCC purchases. I feel it functioned very well from 1949 to 1977 when we took the power away from them. I think we should turn it back to where it was to pre-1977 so that the Secretary had the authority in relation to purchases.

Senator COCHRAN. Mr. Haldeman.

STATEMENT OF DON HALDEMAN, PRESIDENT, WISCONSIN FARM BUREAU FEDERATION, MADISON, WIS.

Mr. HALDEMAN. Thank you, Mr. Chairman, for the opportunity to speak.

I am a dairy farmer in Wisconsin and president of the Wisconsin Farm Bureau Federation, which represents 38,000 member families.

We have a problem in the dairy industry. We are producing too much milk with a result that the huge Government inventories are costing the Federal Government for purchase, storage, and disposal.

Furthermore, these inventories result in downward pressure on dairy farmers' net income. The question of what to do about the problem has been widely discussed, but everyone agrees that we must forge a dairy policy through cooperation between the dairy farmers and the Government that brings production in line with consumption as quickly as possible.

The dairy farmers' financial future, as well as the cost to the Government, must be considered in designing a program. The present program, consisting of a $13.10 support price with assessments, puts the Government cost at less than $1 billion. Admittedly, it will treat all dairy farmers equally and address the net cost to the Government, but it will fail to reduce production fast enough to return the dairy industry to a supply-demand balance.

A cut in the support price has been suggested as an alternative to the present program. Such action would be unwise for a number of reasons. One, it would increase the net cost to the Government by $1 billion, more than the present program of assessments. Two, it does not treat all dairy farmers equally since it favors some at the expense of others. Three, it would increase consumption substantially less than some have claimed. Four, furthermore, it would not reduce production fast enough and it would in fact result in a slower response by dairy farmers than the present program of assessments.

That brings us to the only responsible solution to the dairy problem, an incentive program that would reward farmers who cut back production. Briefly, the incentive plan that we are supporting is a diversion plan, which would provide a $10 per hundredweight payment for milk not produced to those farmers who sign up at a local ASCS office. Partial funding for the program would come from a 50 cent per hundredweight contribution on all milk produced. This voluntary incentive program will solve the dairy problem fairly and equitably. It will cause an immediate reduction in production and allow the Government to start liquidating its inventories.

It is a voluntary program, offering all producers equal opportunity to participate. Since it includes a 50-cent contribution on all milk produced, it will cost the Federal Government less than the present program of assessments. It is the only plan that dairy farmers themselves support. It is also the only plan that has been tested in a statistically accurate nationwide poll.

The results show that dairy farmers would participate with the participation level indicating a reduction of 11.2 billion pounds of milk, which would provide an immediate solution to the dairy surplus problem.

In summary, the voluntary incentive program that we are proposing would return the dairy industry to a position where supply and demand would determine the price. It will insure a cash flow for farmers and improve the net farm income, while at the same time controlling the cost of the dairy program. I urge that you give it your support.

Senator COCHRAN. Thank you very much, Mr. Haldeman.

I think we will just go right on to the other witnesses so that we will have time for a discussion.

Ralph Mitzel.

STATEMENT OF RALPH MITZEL, CHAIRMAN, DAIRY COMMITTEE, NEW YORK FARM BUREAU, GLENMONT, N.Y.

Mr. MITZEL. Thank you, Mr. Chairman.

I am Ralph Mitzel, chairman of the New York Farm Bureau Dairy Committee and member of the New York State Farm Bureau board of directors. The New York Farm Bureau is a general farm organization representing 22,000 farm families in the State. Our membership includes 12,000 dairymen, more dairymen than any other farm organization or dairy cooperative in New York.

I am a dairyman from Lancaster, N.Y., and milk 50 cows. This is my first experience testifying before a congressional committee and I appreciate the opportunity.

New York State is the Nation's third largest dairy producing State with an annual production of approximately 11 billion pounds of milk. The dairy industry generates $1.5 billion in gross farm receipts which provides the economic basis for hundreds of upstate New York communities.

Attached to this statement is a full outline of the 1983 New York Farm Bureau dairy program recommendations. Because of restraints, time restraints, I will not detail these program proposals but give just a brief overview.[1]

During the past 2 years, our membership has reviewed numerous dairy concepts and proposals designed to resolve an increasing imbalance between milk production and milk consumption. The assessment program enacted by Congress in August 1982 has met with widespread opposition among dairymen and is generally regarded ineffective in dealing with the dairy dilemma.

We strongly recommend that Congress enact a dairy program to: No. 1, repeal the present dairy assessment program provided for in the 1982 Budget Reconciliation Act. This assessment is viewed by dairymen as a penalty, not as a long-range market signal. While creating a hardship on producers, the assessment will not help to stimulate commercial consumption through a lower price for milk and milk products.

No. 2, price support adjustments: (a) We recommend immediate adoption of a program to reduce the price support gradually by 25 cents per hundredweight every 3 months during the next 15 months, a total of $1.50 per hundredweight drop, to a base of $11.60, if necessary. If at any time during the 15 months—and what I have here beginning in April 1 would have to be immediately—in which the 25-cent price support adjustments are to be made, the surplus level shows a clear reduction compared to the previous year, the support price would be frozen at that level.

Support price adjustments

Present support level (3.7 percent milk fat)	$13.10
April 1, 1983	12.85
July 1, 1983	12.60
Oct. 1, 1983	12.35
Jan. 1, 1984	12.10
Apr. 1, 1984	11.85
July 1, 1984 (base level)	11.60

The gradual reductions allow for an analysis of the production and consumption situation while the reductions are being made and for review of the impact of various factors on the production of milk, including potentially higher grain prices resulting from the payment-in-kind program.

While I am not an economist, projections by economists with the dairy division of the New York State Department of Agriculture and Markets indicate that a dollar per hundredweight drop in the support price would result in a reduction in Government purchases by over 7.5 billion pounds after 1 year. I am sure that other economists may differ with respect to the supply/demand responses but we believe such a program will give the proper long-term signals to producers and help reduce Government purchases.

We recognize that the price support reduction program, as with most other programs recommended today, will not quickly reduce Government cost with the dairy program. It will take 2 to 3 years for the program to bring supply and demand into balance. This time is necessary to assure the continued success of the dairy industry and to avoid long-term damage.

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[1] See p. 235 for the material referred to by Mr. Mitzel.

For a long-term dairy program, we urge the adoption of the so-called trigger price support program, which would allow the support level to adjust automatically according to the net purchases of dairy products purchased by the Federal Government. The base level we recommend for the trigger price support schedule is $11.60, a $1.50 reduction from the present $13.10 support price.

Three, we strongly urge passage of a national promotion program for all dairy products to be administered by dairymen. It is our belief that a national promotion program for manufactured and fluid milk products, coupled with the price support reductions recommended, can result in a major increase in commercial consumption.

Our objectives in recommending the dairy program proposals are to work toward: maintaining a viable dairy price support; giving correct and long-term signals to the dairy industry and lending institutions relative to the producer price for milk; relating the price support for milk to the market situation; providing a mechanism for the support price to increase when surpluses are reduced; enacting an administratively feasible program; and stimulating consumer demand.

And I thank you for this opportunity to testify.

Senator COCHRAN. Thank you very much. I appreciate your being here and testifying for us.

Howard Reilly, New York Grange.

STATEMENT OF HOWARD REILLY, NEW YORK GRANGE, MECHANICSVILLE, N.Y.

Mr. REILLY. Mr. Chairman, let the record show that my name is Howard Reilly and that, in presenting this statement, I am representing New York State Grange. The Grange is the oldest and largest general farm organization in New York and through its membership of 35,000 it represents the many and varied facets of agricultural endeavors that are pursued there.

Let the record also clearly show that the largest industry in the State of New York is agriculture. I might add, I always enjoy inserting that in the record because I think it comes as a surprise to many people. New York is the Nation's third largest dairy producing State. Like my friend from the Farm Bureau, I also reiterate that it has an annual production of approximately 11 billion pounds of milk, generating $1.5 billion in gross farm revenue.

Mr. Chairman, with that background in the record, I do appreciate the opportunity to speak with you and members of this panel about the imbalance that has developed between the supply and the commercial use of dairy products and about the price support program.

New York State Grange is not represented here today for the purpose of advocating or opposing any of the various proposals that have emerged with a specific designating title. The Grange does, regarding these deliberations, respectfully urge both this committee and the Congress to avoid adopting policies or implementing programs that lack the essential elements of justice and equity.

In addressing these issues today, there are some among us who question the existence of equity in any proposal that advocates spending our way out of the problem by paying ourselves not to perform, and there are some who question the justice of leveling everyone through a uniform industrywide drop in the price support. However, there are at least three program objectives upon which I believe we can all agree as being necessary.

The first is to reduce surplus milk production; second, reduce Government expenditures for dairy products; and third, to maintain a dairy price support program, if necessary with minor adjustments.

In search of an acceptable answer to the dilemma, one finds, upon reviewing the record, that milk producers and the support program in New York, as in the sister States of Pennsylvania and New Jersey, New England, the Southeast and the Southwest portions of the country, benefit from a high commercial utilization of both fluid and manufacturing milk. There is a minimal amount of Government-purchased surplus in these areas.

We could, upon reflection, respectfully suggest that: to maintain a strong agricultural economy and a viable dairy industry in those areas of high commercial utilization; to reduce disparities in support program benefits; to reduce surplus and Government purchase of dairy products. Toward these ends, it would seem to be quite efficacious to maintain the existing class I price and lower the class II price until supply and demand achieve an acceptable balance.

To further reduce Government purchases of dairy products and to aid in regaining control of the whole program, New York State Grange has previously endorsed and continues to advocate: one, raising minimum standards for solids not fat in fluid milk; two, enforcing compliance with existing solid standards; three, pricing producer milk on the basis of end-product value; four, increasing export sales of dairy products; and five, and last but not least certainly, increasing the promotion programs for dairy products.

Mr. Chairman, on behalf of New York State Grange, I express our appreciation for the opportunity to enter these comments into the record of this hearing, and I will add to that my personal thank you for your kind attention.

Senator COCHRAN. Thank you, Mr. Reilly. I appreciate your being here and helping the subcommittee in this way.

If the committee should adopt the Farm Bureau plan of gradually reducing the support level, would there be an incentive to increase production just before the dates on which the support reduction would be based? Will that artificially increase production levels so that you will be able to get the higher price just before a support price change? I guess I would ask you that, Mr. Zundel.

Mr. ZUNDEL. I do not think so, Mr. Chairman. I think that dairymen realize that the support price is dropping and will continue to drop unless they cut production. It is the main criteria, that they will in the face of that cut of the support price, they will not temporarily raise their production. I think they will be looking at the longer trend that support price will not hold them up.

Mr. HALDEMAN. There is a basic problem. We need to look at both sides of the equation. One is the production side and the other is the sales side. It would be extremely hard to really envision how we move the support price down and now it is going to be moved down every 3 months or every 6 months where anyone combined in the segment is going to get caught within the inventory. So I think it would be extremely difficult and I think what you would wind up with is a chaotic situation.

Senator COCHRAN. You would think that it would be more appropriate to lower the support prices if it is done a year in the advance?

Mr. HALDEMAN. I was merely responding to the question. I do not think it is appropriate to cut the support price.

Senator COCHRAN. But if it is done, it would be better to do it on an annual basis rather than a shorter period of time?

Mr. HALDEMAN. Yes. I think the assessment handles that problem. If we want to get the industry back in business and having the people start buying and selling their products, there has got to be some stability as to what we are going to do.

Senator COCHRAN. There are a lot of promotion efforts around the country. A lot of associations have promotion programs. Some States have intrastate promotion programs. Would you envision doing away with some of those local efforts or statewide efforts if a national promotion program is authorized and put into place?

Mr. HALDEMAN. I think most of the proposals would suggest nationwide promotion such as a credit to the local ones so that the local program stays there. I would also contend the best way to get money spent in promoting dairy products is to get supply and demand back in balance and then the processors would have an interest in selling the product to the highest price and get it before the consumer market.

Senator COCHRAN. What is your idea about that, Mr. Mitzel? Do you have promotion programs in New York?

Mr. MITZEL. We do have a promotion program. And our idea was to continue with our promotion program; if we had more money than we needed in our local program, that would go into the national program.

But we tended toward the idea that where there are areas of the country that did have a promotional program, that would stay intact. We want to enhance that program with the national program.

I would like maybe to turn the subject back to the base price plans. There are many ways to beat that plan and already I am hearing those plans in New York State. And if you would hear some of them, I am telling you they scare you a little bit.

Senator COCHRAN. Getting around——

Mr. MITZEL. Getting the $10 a hundred and still cutting back in production. If you want me to cite an example, I will.

Senator COCHRAN. I would like to hear it.

Mr. MITZEL. All right. Supposing, for instance, a farmer was producing a ton of milk a day—we will take a small one like myself—and I cut back 10 percent, well that is 200 pounds a day. Well, I ship my milk every other day. On the third milking, when I go to bed, I shut off my tank. OK. The next morning I get up. Before I milk the next milking, I draw the skimmed milk off the bottom and proceed to put the fourth milk in it. And here I go on, I feed that milk to the calves or 50 hogs in the back and ship about 4- or

5-percent tests and come up with a higher price for my milk and still get my $10 a hundred for cutting back.

So there are many, many ways. That is only one of the simple ones.

Senator COCHRAN. Someone suggested to me if you reduce herd size that you could get around it by leasing some of your cows.

Mr. MITZEL. That is another possibility.

Mr. HALDEMAN. I think if you will read the draft that has been drafted on the other side, they have taken care of that provision, though there is a heavy penalty for someone who tries to do that.

Senator COCHRAN. How do you find out about these efforts to identify the loopholes and avoid abuses? Are we going to have to have an audit committee going around?

Mr. HALDEMAN. I do not envision that that would be necessary.

Senator COCHRAN. What is your reaction to the proposal of freezing, that is to say putting a floor on your class I prices? Mr. Reilly, you have heard this being referred to as a modified Barber plan where you drop the support price but keep a floor on your class I prices. What is your reaction to that suggestion?

Mr. REILLY. Well, the class I producer is not contributing to the surplus problem and the integrity of his market would be preserved. The class II producer, by dropping the support price, it would reduce the production in that area. It would also reduce the cost to the consumer of lower price and a lower income range for products that they would purchase and increase consumption in that. That is the reason I brought that into my testimony. I think that is a possibility.

Senator COCHRAN. You think that is a good idea, to put a floor on your class I prices?

Mr. REILLY. Yes, I do, because there are many areas of the State that do not have the surplus problem, or many areas in the Nation; excuse me.

Senator COCHRAN. Right.

Mr. HALDEMAN. I think it needs to be considered. Last year, I believe, if you look at the statistics, it would show that about 91 percent of the butter market could have been served by the fat that was removed from the class I milk. So I respectfully would submit that the class I milk producer is not completely exempt from being part of the problem.

Senator COCHRAN. So you would not support a floor under class I?

Mr. HALDEMAN. Absolutely not.

Mr. ZUNDEL. I also would not support a floor under class I because I think it would disrupt the existing markets and the way milk is flowing. And a lot of this so-called surplus milk would suddenly start flowing into deficit class I's and causing havoc in those markets.

Senator COCHRAN. It would upset the differentials that exist now and they are there for a reason.

Mr. ZUNDEL. Right.

Senator COCHRAN. Some have suggested that those differentials were set back in 1968 and that they may not reflect the real world cost of transportation and other factors now. Is there a necessity for updating them?

Mr. **Zundel**. In our judgment, I do not think so because I think it would just bring more chaos in established markets the way they are set up.

Senator **Cochran**. Mr. Haldeman, what is your reaction to that?

Mr. **Haldeman**. I really do not think it has to be updated. There are a lot of issues that could be considered as it relates to supplying a deficit market. One might be the removal of some of the water or all the water from milk and replacing it so when it arrives at the market, the transportation costs would not be so high.

Senator **Cochran**. Well, I appreciate your being here and the committee appreciates it. We will resume these hearings in the morning at 9 o'clock with other witnesses who are scheduled to testify at that time.

Until then, the committee stands in recess.

Thank you.

Mr. **Reilly**. Thank you, Senator.

Senator **Cochran**. Thank you, Mr. Reilly.

[Whereupon, at 4:10 p.m., the subcommittee recessed, to reconvene at 9 a.m., Thursday, April 14, 1983, in room 328-A, Russell Senate Office Building.]

REVIEW OF THE DAIRY PRICE SUPPORT PROGRAM

THURSDAY, APRIL 14, 1983

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:05 a.m., in room 328-A, Russell Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran and Huddleston.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The subcommittee will please come to order. We are continuing our hearings on the dairy price support program and suggestions for changes in that program. On this, our second day of hearings, we are happy to welcome our good friend and colleague, Senator Proxmire from Wisconsin. We appreciate your being here and helping us with the hearing, Senator.

You may proceed in any way you desire.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

I have a longer statement which I would appreciate if it could be printed in the record.

I will simply deliver part of that.[1]

Senator COCHRAN. It will be included.

STATEMENT OF HON. WILLIAM PROXMIRE, A U.S. SENATOR FROM WISCONSIN

Senator PROXMIRE. I appreciate this opportunity to testify in support of S. 509, the Dairy Surplus Reduction Act of 1983.

I introduced S. 509 on February 17, 1983, with my colleague from Wisconsin, Senator Kasten, joining me as a cosponsor.

I should point out that this legislation was developed by a coalition of outstanding dairy leaders from Wisconsin. They deserve the credit for the approach contained in S. 509 and for joining together in a constructive effort to solve our dairy surplus problem.

Let me mention, too, that Congressmen Obey, Gunderson, and others also introduced the same bill in the House of Representatives on February 17.

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[1] See p. 241 for the prepared statement of Senator Proxmire.

Although this measure has its origins and its original congressional sponsorship in Wisconsin, believe me, it is legislation that can and should be supported by Members of Congress from throughout the country. I hope that my explanation of S. 509 and what it can accomplish will persuade the members of the subcommittee to give this bill their full support.

S. 509 establishes a voluntary—I stress voluntary—incentive program (VIP) aimed at achieving several major purposes. First, it will restore in a timely fashion the necessary balance between milk supply and demand. Second, the voluntary incentive program will reduce Commodity Credit Corporation purchases of dairy products and thereby cut Federal expenditures for the dairy price support program. Third, this program will maintain dairy farmer income at adequate levels while also giving individual producers the opportunity to combine increased profits with reduced production. Fourth, and to many people the most important of all, these results are to be realized on a voluntary basis: Reduced production levels are not made mandatory and entry by new producers is not restricted.

Under this legislation, some provisions of existing law remain intact. First, the support price for milk and milk products is kept at $13.10 per hundredweight through September 30, 1985, which will mean it will be in effect for 5 years since, of course, it has been at that level since October 1, 1980. Second, the authority of the Secretary of Agriculture to deduct 50 cents per hundredweight from the support price if he estimates that annual CCC purchases will exceed 5 billion pounds milk equivalent is retained.

Beyond the retention of these two key provisions, however, current law is changed by the bill in a number of major ways. Here are the main major components of S. 509.

First, the authority of the Secretary of Agriculture to deduct an additional—a second 50 cents per hundredweight from the support price is repealed.

Second, the bill provides incentive payments of $10 per hundredweight to dairy farmers who voluntarily reduce their production below their base period production. The base period is calendar year 1982. The Agricultural Stabilization and Conservation Service (ASCS), which will administer the VIP, may adjust the base period in hardship cases.

Third, whenever the Secretary of Agriculture implements a 50 cent per hundredweight deduction from the support price of milk, the Secretary must also offer any dairy producer the opportunity to contract with the ASCS to reduce his anticipated milk marketings from the level he marketed in calendar 1982. Those dairy farmers choosing to take part in the VIP are required to contract to reduce marketings for 1 year and may be given an opportunity to contract for a second 1-year period. The contracts will coincide with the Federal fiscal year and the milk marketing year, both of which are, of course, on an October 1 to September 30 cycle.

Fourth, the ASCS is required to pay the contracting producer one-half of the incentive payment within 30 days of the signing of the contract. The other half will be paid at the end of the contract period upon proof of compliance with the terms of the contract. Failure to comply obligates the producer to repay to the ASCS the advance payment plus interest at the rate of 12 percent per year.

Fifth, producers who choose to take part in the VIP are required to contract to reduce their milk marketings by between 5 and 30 percent of their 1982 level. Contracting producers are in compliance if their actual reduction is within 3 percentage points of their contracted reduction, except that no payment shall be made for a reduction of less than 5 percent or more than 30 percent of their base.

There are several other points, but I would like also to mention that if you are concerned about overparticipation, we have a provision that if the Secretary of Agriculture determines that the total marketing reduction contracted for under the VIP would exceed the amount required to bring supply and demand in line, then the Secretary may adjust each individual contract on a pro rata basis to prevent such an excess reduction.

Finally, the program authority established by this legislation expires on September 30, 1985.

Now, Mr. Chairman, why do I advocate this particular program? Why should it be acceptable to and, indeed, I hope, wholeheartedly supported by the administration, the Congress, and the taxpayers? Well, there are many reasons.

First, this program involves a minimal degree of Federal Government regulation and administrative cost. It is, as I have stated, to be administered by an existing governmental agency, the Agricultural Stabilization and Conservation Service.

Second, the bill provides for a program that is simple to understand and to administer.

Third, this program is, once again, voluntary.

Fourth, I think the VIP does a better job in terms of total cost to the taxpayer and dairy surplus reduction than the current program, a straight $13.10 per hundredweight program, or a program calling for 60 percent of parity.

Now I have a table, Mr. Chairman, that outlines the figures supporting this statement and I ask that it be printed at this point in the hearing record.

Senator COCHRAN. It will be included.

COMPARATIVE PROGRAM PURCHASES AND COST

[All purchases in billions of pounds, all costs in millions of dollars]

Milk marketing year	Straight $13.10	60 percent[1] parity	Current program	DSRA
1982–83:[2]				
Purchases	13.6	13.24	14.20	8.95
Cost	$2,312	$1,989	$1,497	$1,217
1983–84:				
Purchases	14.77	10.71	11.31	3.89
Cost	$2,511	$1,715	$689	$695
1984–85:				
Purchases	13.50	9.90	[3] 8.85	2.65
Cost	$2,295	$1,650	$396	$485

[1] $11.37/cwt on Oct. 1, 1982; $12.17/cwt on Oct. 1, 1983; $12.77 on Oct. 1, 1984.

[2] Assuming any program changes are implemented May 1, 1983.

[3] So long as purchases exceed 7.5 billion pounds annually, the Secretary is entitled to the full $1.00 deduction, thereby minimizing costs. Of course, so long as we are purchasing more than 7.5 billion pounds annually, the long-term problems of the dairy price support program have not been solved.

Source: Dr. Robert A. Cropp, UW-Extension Economist.

Senator PROXMIRE. The figures in this table assume a 5-percent reduction in total dairy marketings resulting from the implementation of the act.

This is a very conservative estimate. Bill Knox, who is the editor of Hoard's Dairyman magazine, has run a computerized random sample of his readers to determine participation in the VIP. The findings of this survey reveal that over 60 percent of the Nation's dairy farmers would take part in the VIP and that the resulting cutbacks would reduce national milk marketings by 9 percent or 12 billion pounds, thereby virtually wiping out the current annual surplus.

In addition, the Knox poll found that dairy farmers throughout the country would take part in the VIP. According to Mr. Knox, regional support for the VIP lined up this way: the West would have 62-percent participation; North Central, which would include Wisconsin, 61 percent; Southwest, 62 percent; the winner, including Mississippi, Southeast, 65 percent; and the Northeast, 51 percent. In other words, [illegible] regions are over 50 percent.

Fifth, currently, it costs the Federal Government $17 per hundredweight to support milk at the level of $13.10 per hundredweight. The difference between these two figures is the cost of manufacturing, interest, inspection, transportation, and storage, none of which benefits the dairy farmer. It is less costly for the Government to pay dairy farmers $10 per hundredweight for not producing milk than it is to pay the $17 per hundredweight that is required to fund a $13.10 per hundredweight price support level under the present program.

This $7 differential represents a significant savings to the Federal Government in price support costs. Both the Federal Government and the producer benefit from this approach. To top it off, part, if not all—it depends on the exact level of producer participation—of the $10 per hundredweight incentive payment to complying producers will be paid for through the 50 cent per hundredweight assessment to be levied against both complying and noncomplying producers.

I might add, sixth, the VIP serves the best interests of consumers and taxpayers, as well as dairy farmers, by helping to insure an adequate supply of quality milk at reasonable prices in the future.

Mr. Chairman, I urge you and your colleagues on the subcommittee to give S. 509, the Dairy Surplus Reduction Act of 1983, your enthusiastic support.

Mr. Chairman, I have read only part of my statement. I ask, therefore, that the full text be included in the hearing record.

Senator COCHRAN. Thank you very much, Senator.

We appreciate having the benefit of your testimony at these hearings. You have long been a leader in this area and you certainly do have the attention of the committee when you present this suggestion to us.

Senator Kasten, we are happy to have you here. You may proceed any way you choose.

STATEMENT OF HON. ROBERT KASTEN, A U.S. SENATOR FROM WISCONSIN

Senator **Kasten**. Mr. Chairman, thank you for giving me the opportunity to be here today to express my support for the voluntary incentive program.

I congratulate you and the subcommittee for moving quickly on this issue and I urge you to present a dairy bill to the Senate as quickly as possible for a vote. As you know, the USDA has more or less given Congress a deadline of August 1, to finalize some kind of a dairy bill. If we do not meet this deadline, we are going to be in a position where a second 50 cent assessment will be levied against dairy producers.

The same problems face us this year as last in considering dairy legislation. The cost of the program is increasing. CCC surplus removals are increasing. Yet, farmers' net income is declining while their costs continue to climb. So the task we face is arriving at a compromise that will solve this problem. It seems to me if we continue to go in the direction that we did last year, all we are going to do is dig ourselves deeper and deeper into the problems that we now see.

I am a cosponsor of the dairy bill which was introduced by my colleague, Senator Proxmire, in February called the Dairy Surplus Reduction Act. I feel the bill contains provisions that will benefit all dairy producers. It is designed essentially to stabilize the dairy industry, while maintaining an adequate level of income and a plentiful supply of milk to consumers. The bill is a voluntary incentive plan.

I am anxious to work with the industry, dairy farmers and my colleagues in drafting a compromise dairy bill. I strongly believe, however, that the final language should include some form of incentive for the producer. The form this will take is yet to be determined, but it is imperative that an incentive plan be part of the overall package. I cannot stress the importance or the impact that this legislation will have on the 43,000 Wisconsin dairy producers. They have a clear understanding of the problem. They are willing to take the necessary steps of cutting back production to achieve a balance between supply and demand.

Wisconsin farmers have culled their herds. They also voted last month to fund a statewide $11 million promotion program, aimed in increasing consumption of dairy products.

As I stated before, Wisconsin dairy producers are willing to help, but let us not draft legislation that will pull the rug out from under them financially.

All of us are well aware of the depressed economic conditions of the agriculture industry. All farmers have expenses to meet and production costs have not declined.

The Subcommittee on Agriculture Appropriations, which you Mr. Chairman, chair, has been grappling with the problem of making available adequate funds for the 1984 farm credit programs. With overall farm debt now at $215 billion and net farm income pegged at $19 billion, can we afford to further erode the earning power of our farmers?

That is why I urge you today, Mr. Chairman, and members of the subcommittee, to seriously consider adopting some form of dairy legislation that encompasses an incentive concept. If not, I fear we will drive even more farmers out of business, and this point must be considered.

So, in closing, I would like to express my sincere hope that we can draft a dairy compromise bill, a bill that will prove effective, a bill that will be in place for some time to come. If we can achieve this, then we have done our job well.

Mr. Chairman, thank you for the opportunity to testify before you this morning.

Senator **COCHRAN**. Thank you very much, Senator. You have always been a person this committee has looked to for advice and counsel whenever this issue has come up. And it seems as though it has been before us now almost on a constant basis for the last few years. We have had a lot of discussion about it and sifting through different alternatives that have been presented by various organizations, individual farmers, Members of Congress, administration witnesses, and others.

I wonder, in connection with the VIP program, what the projections are on how much the support price will inevitably be reduced? Under this authority the Secretary would have to reduce it by 50 cents?

Senator **PROXMIRE**. Senator, as I indicated, under our bill the effective price would go down by 50 cents, from $13.10 to $12.60, but not below that. In other words, you would not get a second bite of the apple.

Senator **COCHRAN**. There would not be any further discretion beyond that one 50-cent cut?

Senator **PROXMIRE**. That is right.

Senator **KASTEN**. The first 50 cents is included though.

Senator **COCHRAN**. So it inevitably would be cut 50 cents?

Senator **PROXMIRE**. Yes; and that 50 cents would be used, of course, to constitute the basis for making the incentive payments to those who reduce their production between 5 and 30 percent.

Senator **COCHRAN**. Is there anything in the bill that would provide for a national promotion program? You mentioned the program in Wisconsin that has been voted in by the farmers there, but there is nothing in the VIP bill that would provide for a nationwide promotion program?

Senator **KASTEN**. There is not. One of the things that is being discussed in the House committee is a combination incentive plan and dairy promotion program. But Wisconsin, as I mentioned before, has adopted a dairy promotion program which will commence July 1.

Senator **COCHRAN**. Is there a projection about what the administrative costs of this program would be?

Senator **PROXMIRE**. Yes; I have on page 4 of my statement an indication of the costs, and I have it for each of the years, 1982–83 is a little outdated because it assumes that program changes would be put into effect on April 1, 1983, and, obviously, this will not be the case.

But you can move it up, and the cost, as you can see, of the straight $13.10 is $2.3 billion; 60 percent parity, $1.9 billion; the current program, $1.4 billion; and our program, $1.2 billion.

And as you can see in looking at this, the overall cost of our program and the current program would be very similar after the first year. Ours might be in a given year, a little bit higher, a little bit lower, but throughout the period, if you put it all together, the cost is lower with our program than it would be with any of the others.

Senator COCHRAN. Well, I appreciate very much having this addition to our hearing. We are going to be hearing from some other organizations today. We had a full day yesterday, hearing from farm groups representing every region of the country. We had some good witnesses from your area of the country, and we are certainly pleased you took time to come by and let us have the benefit of your thoughts and advice.

Senator PROXMIRE. I might say just one other thing. I understand that yesterday one of the witnesses indicated that he had a very big farm and a tremendous amount of production, and that he would be able under this kind of an incentive program to net $1 million or something like that.

I understand that in the PIK program we have a limit, is that right?

Senator COCHRAN. No.

Senator PROXMIRE. A $50,000 limit?

Senator COCHRAN. No; there is no limit.

Senator PROXMIRE. I think that maybe there should not be a limit theoretically, but the absence of one tends to discredit a program. I have no objection that we do not have any limit in our bill, but I would certainly have no objection to considering a limit.

Senator COCHRAN. Can you take out as much as 30 percent production under your program?

Senator PROXMIRE. That is right; yes.

Senator COCHRAN. Well, someone had figures indicating, if you had 150 cows in a herd and you reduced production 30 percent, you would get a $60,000, cash payment that year.

Senator PROXMIRE. That is a very big farm. You know, the average dairy farm has 35 cows.

Senator COCHRAN. But it is certainly not uncommon.

Senator PROXMIRE. Not uncommon, that is right.

Senator COCHRAN. It is not uncommon at all.

Do you think the level of participation, after people realized how much money they would be getting if they did cut production the full percentage, would be really greater in practice than this bill now projects?

Senator PROXMIRE. Well, it could be because Knox indicates there would be strong participation. But I think we have a safeguard here because, as I indicated earlier, we permit the Secretary of Agriculture to make a reduction in the amount that they can cut back if the cutbacks would be too great. In other words, if we were to endanger the available supply of milk, we have that safeguard in there.

Senator COCHRAN. Well, thank you very much. We appreciate your giving us the benefit of your time.

We are happy to welcome Senator Strom Thurmond to the committee. We appreciate your being here, Senator. We had a full day of hearing yesterday and this is our second day of hearing. We are happy you took time to come by and ask you to proceed in any way that you wish.

STATEMENT OF HON. STROM THURMOND, A U.S. SENATOR FROM SOUTH CAROLINA

Senator THURMOND. Thank you very much, Mr. Chairman.

I am very pleased that your subcommittee is holding this hearing on the dairy price support program. I appreciate the opportunity to appear before you in connection with this matter. The problems that exist in this program need to be addressed and resolved in an expeditious manner.

This past February I introduced S. 491, the Dairy Price Support Amendments Act of 1983. This legislation was designed to strike at the heart of two short-range problems within the milk program. First, my bill would prevent the U.S. Department of Agriculture from collecting any of its scheduled assessments on commercially marketed milk. Second, it would reduce the dairy price support level by 50 cents per hundredweight.

I am opposed to the assessment because I feel that it is unjust, ineffective, and unwise. The assessment does not take into account vast differences that exist in various regions of the country within the dairy industry.

For example, the milk produced in South Carolina is consumed almost entirely in fluid form, and there are no Commodity Credit Corporation purchases. Therefore, it is most unfair to ask dairy farmers in my State, who are not under a Federal milk marketing order, to pay for a program in which they do not participate, or to share in the cost of removing milk surpluses which they have not caused.

Moreover, I do not feel that this assessment will result in a substantial decrease in milk production. I have been contacted by numerous dairy producers stating that they will not decrease their output due to the assessment. In fact, they have communicated their intentions to increase their output in an effort to offset the income loss they must absorb from the per hundredweight assessment. This will only exacerbate the problem of overproduction, thus increasing Federal purchasing and storage costs. The point is there is a high possibility this assessment will result in increased Government purchases of dairy products.

The second provision of my legislation cuts the support price level from $13.10 to $12.60. This will simply help to remove any artificial Government incentive for dairy farmers to overproduce. It will also lower the price to the consumer of fluid milk and milk products, thereby leading to greater utilization of dairy products and reduction of surpluses. Thus, a reasonable reduction in the price support directly attacks the surplus problem on both the milk production—supply—and milk consumption—demand—sides of the presently unbalanced equation. I feel that this modest turn in the support price will not place an undue burden on dairy farmers in any area of the country.

Mr. Chairman, it is my understanding that your subcommittee will be studying a number of bills and proposals that have surfaced recently on this subject. For my part, I am not totally wedded to the specific proposals in my bill. However, I feel that it is imperative that the legislative proposal from the Senate Agriculture Committee contain the basic points that my legislation encompasses.

They are: First, a repeal of the assessment; and second, a reasonable, effective cut in the support price to reduce production, increase consumption, and thereby reduce the surpluses that now heavily overhang the markets for milk products. This will provide much needed short-term relief to our dairy farmers. I urge the Agriculture Committee to act swiftly on this matter so that it can be brought before the full Senate as soon as possible.

While I am deeply concerned over the short-term situation, I would also like to present some additional recommendations concerning concepts which might result in a reasonable, effective, and comprehensive solution to the long-range problems that face our Nation's dairy industry.

For example, I believe careful consideration should also be given to the following:

First, placing a cap on total Federal expenditures for the milk price support program, with necessary flexibility for the Secretary of Agriculture to adjust the price-support level in order to keep the Federal outlays from exceeding this cap.

Second, establishing an improved market promotion program that will expand market consumption of dairy products domestically and abroad, and pressing for the removal of trade barriers which presently inhibit exports. While the milk producers in my State and I strongly oppose the present assessment, most dairy farmers would agree with a smaller, reasonable assessment of 10 or 15 cents per hundredweight, provided that money was wisely used for effective market production efforts that increase total consumption of milk and milk products.

Third, increasing the minimum standards for solid, nonfat content in fluid milk in order to increase utilization of raw milk.

Fourth, implementing a fair milk base for individual dairy producers in Federal order markets, similar to the base plan now used in a number of State-controlled milk markets, such as my State of South Carolina. As part of such a base plan, the Federal support for milk produced in excess of an individual dairy farmer's established base would either be eliminated or substantially reduced from current levels.

Fifth, I am opposed to the assessment, but if the committee should decide to recommend the continuation of an assessment in order to help defray some of the cost of the dairy price support program, the assessment should definitely be limited to the portion of each dairy farmer's total milk production which goes into class II, nonfluid milk utilization. In other words, the assessment should be specifically keyed to a farmer's surplus production, rather than levying what amounts to a special tax or penalty on each dairy producer, regardless of whether that farmer is directly contributing to the surplus problem.

These are some of the ideas that dairy farmers in my State and others in the industry have suggested, which appear to be worthy of full and careful consideration. Again, I hope that the Agriculture Committee will act promptly on the distressing problems that exist in the dairy price support program and that you will be able to devise a fair and a reasonable solution to the overall problems faced by the milk industry.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Senator, thank you for being here and giving us the benefit of this statement. I think you have got some excellent suggestions in here, and some of these have been embraced by others who testified yesterday. I think that we are going to have to carefully consider some of these recommendations, the short-term solutions that you propose, as well as some of the long-term problems that you think should be addressed.

I congratulate you for the quality of the statement and the work that you have been doing on this issue and again express our sincere appreciation for your help on this.

Senator THURMOND. Thank you very much, Senator.

Coming from a farming State, like Mississippi, I am sure that you will understand as well as any man in the Senate the problems of the farmers and understand the very tough position in which the farmers find themselves today.

Most farmers are spending more to produce their crops than they are getting for their crops. And that is the case of farming in general. But with regard to the dairy industry, I do not think the people who did not cause the surplus should have to suffer.

Thank you very much.

Senator COCHRAN. Thank you very much, Senator.

Next we will invite our first administration witness, Dick Lyng, Deputy Secretary, U.S. Department of Agriculture, and Bill Lesher, Assistant Secretary for Economics, to come around and join us. We appreciate your being here very much.

We are not at a loss for suggestions. We have had a lot of alternatives put before the committee during these hearings.

It has been a definite educational process for our committee and I think it indicates to us the complexity of the problem. It is not one that is going to be easily solved or that maybe has a simple solution to it.

We appreciate your being here and cooperating with the committee. You may proceed.

STATEMENT OF HON. RICHARD LYNG, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY HON. WILLIAM LESHER, ASSISTANT SECRETARY FOR ECONOMICS

Mr. LYNG. Thank you, Mr. Chairman.

It is a pleasure to have this opportunity for us to discuss the dairy price support program with you today.

This administration, as you know, has tried to deal effectively with several major agricultural issues during the past 2 years. Each issue posed a particular problem. In most instances, we have been able to arrive at a workable solution. Solutions were possible because the affected industries and commodity groups were able to join together and agree to support initiatives which were also acceptable to the Congress and to the administration.

Unfortunately, we have been unsuccessful to date in achieving a solution to the dairy price support problem. While we made some limited progress initially, there remain serious problems with the program which demand immediate solutions. It is generally agreed that a reasonable dairy price support program is badly needed. But the hour is indeed getting late and consensus is elusive.

The Reagan administration accepts the need for a dairy price support program which provides for adequate, reliable supplies of pure, wholesome milk at reasonable prices. While we recognize that the program must provide dairy producers an adequate return, it must also be at a reasonable cost to the Government and ultimately to the taxpayers. The cost of the current program is unreasonable and excessive.

The dairy price support program generally performed quite well from 1949 until about 1980. During most of this time, the price support level was high enough to give producers a fair return while consumers were supplied with an adequate and wholesome supply of milk and dairy products. However, the Food and Agriculture Act of 1977 amended the Agriculture Act of 1949 to increase the minimum support level to 80 percent of parity, an historically high level, and mandated a midyear adjustment of the support price. Moreover, in 1979, these provisions were extended for 2 additional years.

That legislation has been the primary cause of one of the most serious problems the dairy industry has ever encountered. It sent dairy producers an economic signal to produce more milk. More importantly, the historically high price support level attracted additional production resources into the industry. Cow numbers increased for the first time in 30 years, and productivity per cow continued to rise. This expansion in dairy production resulted in a tremendous surplus of dairy products at a cost to taxpayers of over $2 billion per year. It has continued to expand in 1983. At the same time, the high level of price support has acted to discourage consumption. The end result has been virtually to bury the Nation in surplus dairy products.

It would be wrong to blame dairy producers for this gross overproduction. Dairy producers simply reacted to the price signals that were being sent by their Government, and they were the wrong signals since they ignored the marketplace. Excess production and lower consumption resulted.

Yes, the dairy problem was caused by the Government. We adopted legislation that provided for inflexible adjustments in the price support level which bore no relationship to the marketplace. We now have a serious surplus problem placing the dairy support program itself in jeopardy.

Early in this administration a decision was made to seek congressional approval to maintain the support price at a specified level. We realized that a severe overproduction problem had been set in motion that had to be turned around. Congress accepted our proposal to eliminate the semiannual adjustment in the level of price support which was scheduled for April 1, 1981, which held the support price at $13.10 per hundredweight. It has remained at this level.

But milk production continued to increase, demand leveled off, surplus inventories kept building, and the program costs kept rising. Our options were limited. During consideration for the 1981 farm bill, the administration sought flexibility in adjusting the level of price support for milk.

We faced strong opposition and were not able to achieve enough moderation in the price support level. By late 1981, the situation was completely out of control and it was obvious the provisions in the 1981 farm bill would not solve the problem. At the same time, it became clear that without the united support of the dairy industry, the chances of getting a workable solution would be severely limited.

A year ago last March, the Secretary called for a dairy symposium to be conducted in Kansas City. He felt that it was imperative to provide a forum in which the dairy leaders of this Nation could get together and generate input from the industry.

Yet, the symposium produced a wide range of ideas. While there was no consensus developed for any one proposal, the overriding mood of the participants was to find a solution that would work. It was apparent to everyone that we had little time and could not afford to make too many more mistakes.

After considerable deliberation the administration, in May of 1982, supported an overall dairy package that requested legislative authority in two areas: first, discretionary authority for the Secretary of Agriculture to establish the price support level as needed to bring milk production under control; and second, amendments to the 1949 act to allow the Commodity Credit Corporation to donate dairy products overseas and to permit domestic donation of these products to needy households.

At that time, the Secretary promised not to adjust the support level until January 1, 1983, in order to allow producers enough time to begin making the necessary cutbacks and still have the benefits of the higher price support. But at that time, he also pledged that the price support level would not be lowered below $12 per hundredweight. The Secretary also outlined a number of administrative steps we could take, including stepping up our domestic donations to needy families; and we have acted on most of them.

The proposal was offered to Congress last year. It was soundly rejected. In its place, Congress passed the dairy deduction plan in the Omnibus Budget Reconciliation Act of 1982. The administration never liked this plan—we never supported it because we did not believe it would solve the problem. Even on the day it passed, we predicted that the Congress would again be facing the issue before too many months passed.

After grassroots opposition was voiced by farmers to the deduction plan, you could find no one who would claim it. The end result was a law, a deduction, that virtually no one supported.

The Department announced plans to implement the deduction, 50 cents per hundredweight starting last December. Immediately, numerous lawsuits were filed across the country. Before the month ended, we were legally restrained from collecting the deduction.

In January of this year, we again announced plans to implement the deduction effective April 1 and asked for public comment. At the same time, we asked for comments on a proposal to begin collecting the second 50-cent deduction which was authorized by Congress. The comment period ended February 28, 1983.

The second deduction contains a provision for giving a refund to producers who reduce their commercial marketing from quantities marketed during a designated base period. In attempting to collect the second 50-cent deduction, the Department of Agriculture will be faced with a difficult administrative problem. This will be difficult because individual past production levels must be verified and current production of each producer will have to be monitored.

The Department has spent a considerable amount of time and effort trying to resolve this problem. We have talked with the industry and congressional leaders, again trying to reach some sort of consensus. But now it is time for the administration, the dairy industry and the Congress to make some tough and timely decisions. Delaying these decisions will not resolve the dairy surplus problem.

This brings us to where we are today and it is important to put the situation in proper perspective. First, the Department announced that the first 50-cent deduction will be implemented effective April 16, the end of this week. In addition, we will very soon be conducting the necessary public rulemaking to determine whether the second 50-cent deduction should be implemented.

There must be a better way. There surely is a better, less complex solution which will be widely acceptable. The administration has indicated repeatedly that alternative proposals will be given serious consideration. We believe that a solution to the dairy problem must be unique. It should be designed to strike directly at the heart of the situation.

The Secretary of Agriculture, in a dairy policy statement last month, urged that a solution embrace these principles:

It should allow freedom of initiative for an individual dairyman. It should not force him to operate under any type of restrictive system.

It should maintain the basic type of program that has served the producers and the industry so well since 1949.

It should lower dairy surpluses by simultaneously reducing milk production and increasing consumption.

It should be simple to administer and easily understood by dairy farmers.

It should give the Secretary of Agriculture the flexibility over time to adjust the program to changing supply and demand situations.

Proposals which embrace these principles will receive the support of this administration. We have purposely not offered a specific proposal to show that we are willing to work with the industry and with the Congress to fashion a reasonable dairy policy.

We are aware there are some who resist giving the Secretary of Agriculture any flexibility to achieve an adequate balance between supply and demand. We believe they are unnecessarily fearful. No Secretary of Agriculture, under any administration, would ever lower the support price to a level which would result in a shortage of milk.

We asked for greater flexibility in our last proposal and the Congress rejected it. But respectfully we ask the Congress to reexamine our position.

A sound, workable dairy support plan should not be complicated. The type of plan we had in place for many years was simple, effective, and clearly understood by farmers. We should seriously consider this before adopting a totally new, complex approach.

If a sufficient resolution is not forthcoming by August 1, the Department will again consider the implementation of the second 50-cent deduction. We certainly hope this will not be necessary. We believe the Congress and the industry share our concerns.

We have been very encouraged about the prospects of getting the dairy price support program headed in the right direction. We have been approached by dairy producers, dairy cooperatives, farm organizations, commodity groups, and state officials. Many of them are voicing a similar theme: A reduction in price supports is the best approach. Demand for milk products must be increased and reducing the price support level is the most effective way to insure that. This adjustment is necessary for fluid as well as processed dairy products. In addition, it sends a signal to farmers to adjust output to market needs.

For the past 2 years the Nation has searched for a solution to the dairy support problem, which would somehow leave all dairy producers untouched. The failure of such efforts is apparent when one looks at the gigantic mountains of butter, nonfat milk powder and cheese in Government warehouses. The failure in getting control of the program is disturbingly apparent when we add up the over $6 billion net cost to the taxpayers in just about 3 years.

Further failure to come to grips with the dairy problem threatens a total end to the dairy support program. We must not allow this to happen.

Thank you, Mr. Chairman.

Senator **COCHRAN**. Thank you very much, Mr. Secretary.

Mr. Lesher, are you here to make a statement or to answer questions.

Mr. **LESHER**. I do not have a statement, Mr. Chairman.

Senator **COCHRAN**. Senator Huddleston, welcome; we are glad to have you here.

Senator **HUDDLESTON**. Thank you, Mr. Chairman.

Senator **COCHRAN**. Do you have a statement?

Senator **HUDDLESTON**. No; I do not have a statement.

Senator **COCHRAN**. Do you have any questions that you would like to direct to the Secretary?

Senator **HUDDLESTON**. I will defer to the chairman.

Senator **COCHRAN**. I was going to ask about implementing a new program. We saw the Department take about 6 months, I think, to implement the assessment, the 50-cent assessment, and it seemed to be a fairly simple thing to do.

We have had suggested to the committee that there should be an incentive program adopted. Senator Proxmire, earlier this morning, suggested a voluntary incentive program, that is reflected in the bill, that he and Senator Kasten have introduced. The Milk Producers Federation has suggested an incentive program of paying dairy farmers not to produce.

How long do you think it would require for the Department to implement a plan such as that?

Mr. LYNG. Well, I agree with you, Mr. Chairman, that on the surface the 50-cent deduction appears rather simple and relatively easy to implement. But I am hesitant to make too many comments about that because we are in court in three or four different places today. It would not be appropriate for me to suggest when this program can be implemented.

To answer your question on implementing a new dairy program that would be more complex than current law is impossible for me to answer. But it does appear that those who would oppose any program are going to legally challenge it. Thus, it could take quite a while to put in place a complicated program if we do not get something that is very clear and can easily be defended.

Senator COCHRAN. What difficulties, if any, would be encountered in putting together a program that requires the development of a base plan and assigning a base to individual farmers and monitoring the production by individual dairy farmers? Have you taken a look at that and tried to project what the costs would be or whether or not the Department could, in fact, administer such a program?

Mr. LYNG. No, really we have not studied the problem in detail and I do not have a firm cost figure. While there would be problems, I do not want to exaggerate them because the Department, as you know, has programs on many crops that are complicated. There are over 300,000 dairymen in the United States. And it would be a sizable task to establish bases for each of them and to compare future production with those bases. But it could be done. Actually, base plans have been operated in some Federal marketing orders and in the State of California under a State order.

While the administration of such a program is not impossible, it would lead to all kinds of complications such as hardship cases and other special situations. We would much prefer to avoid those administrative problems, if we could.

Senator COCHRAN. I remember when we were discussing the payment-in-kind program that the Department implemented for five major commodity areas, one question kept arising and that is why soybeans were not included. There was a lot of discussion about it, and one of the problems that was identified in our hearings was that many soybean farmers did not have an established base, and it would be impossible, we were told, to administer a program for soybeans because of that. There were other problems too, but that was one problem that was identified. I wonder if that same element is applicable to a dairy program that requires the establishment of a base when there is no record base for many dairy farmers.

Mr. LYNG. Some of the same problems exist when you have a base for any commodity program. I have already said somewhere, that we do not favor any kind of a base plan for the dairy program. We would rather stay away from it.

I believe, however, that the history of dairy production might be easier to establish than some other commodities because, first of all, a large percentage of our milk goes through the Federal milk marketing order system; others go through State systems such as California has. The dairy industry is highly regulated in terms of where the producer disposes of his milk and detailed records are kept. I think it could be done for dairy with some difficulty, but not quite as difficult as soybeans or some other crops where individual farm production records may not be as good.

In my home State of California, farmers have started growing wheat and corn in greater quantities, and they were shocked to find they had no bases for the PIK program because they had never gone in and established their production histories with the local ASAS officer. It has brought some real hardships there. I hope I have answered your question correctly.

Mr. LESHER. Several issues are involved with this question. With any kind of a base system, as we have for grains and the PIK program as the Deputy Secretary stated, you have problems with administrating the programs. Even with excluding soybeans, we have had several issues arise with bases and the payment-in-kind program.

One issue concerning a base is getting the production records and establishing a base. A second issue involves the inherent problems you have with the appropriateness of that base concerning an individual producers' circumstances—the hardship cases and the other problems that ensue. For example, if the dairy base was for fiscal year 1982 and the producers' herd had mastitis that year, he is not happy with his established base. And the ultimate issue with a base is that, if they begin to take on value, that base will be very hard to get rid of because that value gets capitalized into the assets of the farm—increasing production costs.

Senator COCHRAN. What does that mean? I do not understand it. The base itself begin to take on value?

Mr. LYNG. Yes.

Senator COCHRAN. A proprietary interest in the base?

Mr. LYNG. Yes. If it is the kind of a base that he cannot get into business without, then it begins to be a franchise. In Canada, for example, where they have rather restrictive bases, I understand it costs above $7,000 per cow to have the privilege of milking. In California, where the bases apply for fluid milk, and the difference between the price of fluid milk for manufactured products is not so great, value of the base is more like $700 per cow. But whatever, the value of the base, you add a capital cost which eventually has to be built into the cost of producing milk and dairy products—all because of Government action.

We would be very much opposed to any base plan. We would oppose vigorously any one which we thought would eventually take on any value. I think quite a few of the proposals that have been offered would call for base plans that would not be in existence long enough and not be transferable so value would not accrue.

I do not think very many people, frankly, want to have base plans that would lead to high values.

Senator COCHRAN. Have you taken a look at the projected cost of administering the federation's program? I think there was testimony that the annual cost would be $787 million or some figure like that. Have you taken a look at those projected costs to see whether or not you agree with that?

Mr. **Lesher**. We currently are in the process of estimating this program's cost. I believe the federation plan was just introduced yesterday, so it may take us a few days.

But since their final plan just came out yesterday, we are not in a position to give you definite cost figures on those plans.

Senator **Cochran**. There was testimony from one witness yesterday presenting what is being referred to as a Farm Bureau proposal, which is a gradual decrease in the support price over time. Would that, in your judgment, be preferable to an immediate cut in the support price of, say, a dollar?

Mr. **Lyng**. Well, we think that anything less than a dollar, and assuming that we have eliminated the assessments, would not be adequate to start getting the situation turned around.

Senator **Cochran**. Right. I think most everybody agreed to get rid of the assessments. We have not had anybody come in here suggesting that assessments ought to be continued or increased.

Mr. **Lyng**. We would think that the initial reduction in the support should be at least a dollar if we want to begin to get this thing under control.

Senator **Cochran**. Somebody said they heard an administration representative—I do not know whether they accused you of this, Mr. Lesher, or who it was—saying that to get the program under control, a support level of $10 would have to be continued for 2 or 3 years. Is that just a rumor?

Mr. **Lyng**. Mr. Chairman, that would have to be some economist very deep in the Department who has no political instinct. [Laughter.]

Mr. **Lesher**. I keep hearing this, and I would like to set the record straight.

I did mention it once. I was supposed to go to Wisconsin to address a dairy group a few weeks ago. I could not make it, but I participated in a call-in program in Wisconsin instead. Someone asked, a question and it went like this. "If you were going to solve the dairy problem overnight, in other words, get the dairy problem under control within 1 year, how low would the support price have to go?" I answered that it would have to be a very deep cut. Then someone said, "Well, how much," I said a very deep cut, perhaps as low as $10 per hundredweight. And I added, though, for the record, that in fact the administration would not support that kind of a cut in the price support program.

What I was trying to say is that we feel Government caused this problem to a large extent and that we have some patience in getting out of the situation—that we were not ready to go that deep and that quick to get it done.

So I think some have misquoted me or taken me out of context.

Mr. **Lyng**. I think it is important that we are not an administration anxious to correct this program overnight. The dollar assessment would raise more money for the Government; it would save the Government more money than a dollar reduction in the support price. But we do not think it is a good policy—we know that it does not do anything to help in the consumption of dairy products. We think that a dollar reduction in the support price would be infinitely better, even though in the next fiscal year or so the program would cost more than the deductions.

Senator **Cochran**. Someone suggested in testimony before the committee that if we reduced the support price by a dollar and did not put some floor under class I milk, that we would have some regional disparities. Some regions would not be producing enough fluid milk to meet demands in those regions, and you would end up having a lot of financial dislocations in those regions.

Have you looked at that aspect of the proposals? Do you have any reaction to that?

Mr. **Lyng**. Yes; I did look at that. We also had the staff look at it. I do not believe there would be serious dislocations.

Senator **Cochran**. Senator Huddleston.

Senator **Huddleston**. Thank you.

Mr. Secretary, I am sorry I was here a little late. The PIK program seems to be having some influence already on the grain markets. What influence do you think that an increase in feed grains might have on dairy production?

Mr. **Lyng**. Well, I think in time it definitely will have an effect. One of the reasons, of course, that we did not get the kind of adjustment that we would normally get by leaving the price support the same since October 1, 1981, is that inflation has abated along with stable or lower grain prices. If we took a look at the 10- or 15-year period before 1980, and if you had left the price support level for 2½ years—you would have seen dismay among dairy producers and lower production because we had double-digit inflation.

With lower feed prices and the leveling out of other costs, we have not seen the disincentive that you would normally expect by leaving the price support level the same. To the extent that we are able to get grain prices to where they should be with the PIK program, it will have, in the long-term, a beneficial effect in terms of reducing excess dairy production.

The PIK program, though, is not designed to have an immediate increase in grain prices, although the market price of feed grains has gone up significantly more than some of us anticipated. But we are not going to be short of feed grains. We will have an ample supply. So I do not think we can look forward to higher feed grain prices as being a primary way to solve the dairy program. It can help, but I do not think it will be the solution.

Senator **Huddleston**. Similiarly, we would like to see somewhat simplistically, I think, that the program itself has been responsible for the problem that we have in overproduction. But, at the same time do you not think that the low grain prices that we have experienced, plus the fact that inflation has been adding to costs and farmers have had great need for additional cash flow, because they were not making anything on anything else, have helped create the problems that we now have?

Mr. **Lyng**. Yes.

The lack of other alternatives has caused several producers to remain in the dairy business and, in some cases, to expand his production. It is all a part of the problem.

Mr. **Lesher**. The Deputy Secretary stated that that higher feed prices alone, will not necessarily bring us out of the current oversupply situation. If you had a 50-cent per bushel increase in corn prices, you may increase the cost of producing milk 25 or 30 cents a hundredweight.

In other words, higher feed prices will be very helpful, as he has suggested, but I do not want you to misinterpret that this alone will bring us out of the current situation.

Senator HUDDLESTON. The point I am making is that as long as grain prices have been as low as they have been, whatever you do on the support price, over the 50-cent checkoff, that just encourages many dairy farmers to try to produce that much more to keep their cash flow about the same. Now that works up to a point of diminishing returns, but I think that is what we have seen, is it not?

Mr. LYNG. That is one factor, not necessarily a major factor.

Senator HUDDLESTON. I understand, yes. I understand there are several factors involved in this and there is probably no one simple solution.

Another factor might be the effort that has been made, and is now being made and is contemplated, to disburse those surpluses that we have. I know the Department is trying in a number of ways to get that material out for usage.

What are the prospects there, given what you are doing now, given what is presumably going to be made possible with the legislation that is introduced and on its way to passage?

Mr. LYNG. In an aggressive way, we have been trying to reduce our dairy surpluses, but we have not succeeded because we are acquiring stock faster than we can give them away. As a matter of fact, we are going in the other direction—adding stocks—because we are purchasing dairy products at such a rapid rate to keep prices the current level of price support.

We have no prospects for any immediate substantial reduction in the dairy surplus stocks in the United States.

Senator HUDDLESTON. Well, you made a reference to some innovative uses of dairy products. Is there anything specific you have in mind there?

Mr. LYNG. No, but these are some of the issues that have led to proposals for a checkoff for promotion of dairy products. Also, there are some leaders in the dairy industry who believe that product research will lead to some new dairy products that could increase diary product sales. If we look at some of the products today that are very popular, like the yogurts and the fortified nonfat milk and others, they have had the effect of increasing consumption.

I think there are things that can be done. One problem in this area of increased product development and better marketing techniques has been the readiness of the Government to pay what would be high prices in the commercial marketplace for butter, powder, and cheese. It has been a convenient way for people to market the product rather than find new markets and products.

I think the support price has been too high for too long, and this has discouraged consumption.

Senator HUDDLESTON. Do you think a retail price on dairy products is an inhibiting factor to the sale of it to the consumer?

Mr. LYNG. There is no question about that. In fact, it is determined primarily by the price support level.

Senator HUDDLESTON. I think that is, of course, one of the real shortcomings of the 50-cent tax that we have now. It does not pass through to the consumer in any way.

Every Secretary since I have been up here has always asked for more flexibility in being able to set a support price, as he perceives conditions warrant. Is that part of your suggestion, that the Secretary be given an almost carte blanche authority to determine a support price level from time to time?

Mr. LYNG. Senator, last year we asked for discretion and we had to settle for much less. But we urge the Congress to give the Secretary of Agriculture some flexibility, if for no other reason than the increases in productivity in dairy production that seems certain to occur very soon.

We have all kinds of technological innovations that are just coming on line.

Senator HUDDLESTON. Well, I understand now they are getting into all kinds of exotic breeding methods, to develop the super milk cows

Mr. LYNG. That is correct. I talked to a dairyman—as a matter of fact, he is in the room—the other day about this. There are embryo transplant techniques, and there is no question they are going to have a major effect.

Senator HUDDLESTON. Mr. Secretary, do you have at this point a particular preference? You have seen the various proposals that have been made and, as the chairman has pointed out, the situation is somewhat fluid, if I might make a pun, but at any rate there are some basic suggestions made and different producing groups have different ideas.

Are there some basic elements that you feel ought to be in each alternative? Are there some alternatives that look better than others? Are some acceptable as they are?

Mr. LYNG. Yes. I think that the statement that I gave had five criteria that we think should be followed. A number of these proposals, however, meet most if not all of the listed criteria.

It has been a value, I think, for the administration not to have the rigidity that we have had in the past in terms of attempts to have our own program. We stand ready to work with this committee and with the people who have testified before this committee. We have met with many of them recently to come up with a program that is more widely acceptable. We just haven't had much luck yet.

This has been difficult because there is a great disparity between the proposals, ranging all the way from rather restrictive programs, which we do not favor, to modest reductions in the support which we do not think go quite far enough.

We stand ready to work with all the interested groups and we are going to step up our pace of working with the Congress to reach a solution. Both Houses of Congress have had hearings on this issue, and we will be more active in the next few weeks in trying to help and exert leadership to reach a workable dairy price support program. We stand ready to provide any data or analysis that we are asked to provide.

Senator HUDDLESTON. Can there be any validity to this suggestion that I heard from a dairy farmer out in the field that, instead of trying to develop a base, that you just establish the principle that you will pay the support price, whatever it happens to be, on just a certain percent of each producer's production, whether it is 90 percent or 80 percent or whatever?

Mr. **Lyng**. Well, that has been proposed but one of the problems with this proposal is what happens to the other 10 percent? It would operate without support and you would have two markets and it would add great confusion and instability.

Milk is produced every day.

Senator **Huddleston**. Twice a day.

Mr. **Lyng**. But at least daily, seven days a week. So dairying is not like other farming operations that you can set aside 10 percent in some convenient way.

The purpose of the support program is to provide more stability than we have in other crops. There are good reasons for us to do that because if you do not have a high enough support program, and you have caused farmers to cull the cows, it takes years to get back into the dairy business. We have seen this happen in some of the developing countries, when in order to satisfy the demand of a populace for lower prices, they put ceiling prices on dairy products below the cost of the dairymen. You suddenly get the dairy cow converted into meat and you have less milk.

So I do not see how you could have a workable dairy support program that would only take care of 90 percent of the production. Now you can penalize people somehow for producing beyond a certain amount. If you get into this type of program with a base, you still maintain your support program but implement some sort of a penalty for those who produce over the base. You pay them less somehow. There are several complicated ways, but we prefer more simple programs.

Senator **Huddleston**. Yes; I understand that.

I think you have well stated the value of the program itself and the necessity of having one, and the need not to institute a new program that is going to wipe out a lot of producers, because dairying, as you have pointed out, is not something you get in and out of quickly or easily or inexpensively. That ought to be our major objective.

Thank you.

Senator **Cochran**. One thing that concerns me, Mr. Secretary, is some cost of production numbers that I have heard that illustrate a pretty substantial disparity between regions. For instance, I have heard that the average profit for a southeastern dairy farmer is about 70 cents per hundredweight. This was compared with $2.43 for an average producer in the upper Midwest. The disparity is said to represent a much higher cost of production, mainly feed costs and access to the grain, in regions such as the Southeast.

If we reduced the price support across the board nationwide, for example, by a dollar, is this going to inevitably put out of business all dairy farmers in the Southeast as they will not be able to make a profit at all?

Mr. **Lyng**. Not at all. The dairy support price system is only a part of the dairy pricing system. It is designed to combine dairy price support program and milk marketing order system together. It is designed to give stability across the board to both fluid milk, class I milk, as well as manufacturing milk. Then it recognizes that there are certain places in the country where, because of the climate, the soil, and, to some extent, the history, they produce more milk, there are differentials in prices that have been set up to reflect the freight cost of moving the milk from one part of the country to another.

That very difference in the cost is reflected in the amount of milk that is produced and the system works out pretty well. A reduction in the support would have a tendency to leave things pretty much as they are in terms of the geographic production.

Now some people would say that those areas that are producing more butter, powder, and cheese would be more severely hurt by a reduction in the price support level.

There is a constant change taking place where dairy products are produced, and there has been a tendency for increased production in the West and less in the East, partly because of the costs, and those differentials are not always in perfect synchronization. But I do not think a reduction in the support price would seriously disadvantage any geographic area. There are those who would disagree with me on that.

Senator COCHRAN. But most of those, you say, who claim that it would disadvantage regions argue that it would disadvantage the upper Midwest?

Mr. LYNG. I believe that is true.

Senator COCHRAN. Do you have any objection to a nationwide promotion plan to help encourage milk consumption?

Mr. LYNG. No. We have taken the view that this is something for the producers to determine—and in many States they have promotion programs in place. They have, I understand, recently voted in a program in Wisconsin.

As long as it is being paid for by the producers, we have left that determination to the producers.

Senator COCHRAN. What is your view about the suggestion that in any incentive plan there should be a limitation on the amount of money that is actually paid to a dairy farmer for cutting production? I used earlier this morning the example of a farmer milking 150 cows. If he cut production back 30 percent at current support levels, he would be eligible for a $60,000 annual payment.

We had one farmer testify yesterday who said that he would be eligible for some $800,000 in an annual payment if an incentive plan, such as the one suggested by the federation, were adopted. Does this violate the minimum limitation that is in the law now?

Mr. LYNG. Well, I think I would have to let a lawyer determine that, but I think it would be very difficult to have a program—if you are trying to reduce production—that would treat small dairymen substantially differently than large ones. I say this because you are trying to get rid of the production, and we have to get some reduction from the larger producers.

I suppose, however, we should not design it so the incentive is that good. The incentive should work about the same for all. After all, if the producer is giving up the production of a large amount, he should be paid a large amount. And we will not get him to do it unless we pay him. But we should not pay him too much.

Senator **Cochran**. We also had some witnesses who suggested that if you do cut the price support, you are going to force some farmers to increase production because of cash flow problems. We had one witness say that yesterday. In discussing the various proposals that are before the committee, he said that farmers in his community would not be able to stay in business with a support price of $12.50 unless they did add some cows to their herds and try to produce more. What is your reaction to that?

Mr. **Lyng**. Actually, it perhaps is true in the short term. For example, the first 50-cent assessment might have the effect of causing someone to increase the size of their milk production to try and offset that for a very short period of time.

But in the long term, that argument is wrong. If by lowering the price you would increase production, then it would be logical to suggest that by increasing the price you would lower production. It just does not work that way.

Either by lowering the dairy support price or by putting on a fee which takes the money from the dairyman and lowers his price you will in time reduce production.

Senator **Cochran**. Mr. Secretary, I do not have any other questions. Senator Huddleston, do you have other questions?

Senator **Huddleston**. No, I do not have anything further.

Senator **Cochran**. We appreciate very much your being here and helping the committee by providing us with the benefit of your thoughts on this very important issue.

Mr. **Lyng**. Thank you. It is a pleasure to be here.

Senator **Cochran**. Thank you.

We now have a panel scheduled to appear before the committee, includinq John Datt, secretary and director of the Washington office of the American Farm Bureau Federation; Robert Mullins, legislative director of the National Farmers Union; Douglas Caruso, general manager, Farmers Union Milk Marketing Cooperative; Ed Graf, assistant to the president, National Farmers Organization; and Robert Fredericks, legislative director of the National Grange.

If you would come forward and be seated around the table, we would appreciate it.

We welcome this panel to the committee hearing. We appreciate your being here. Mr. Datt, we will lead off with you. We have copies of statements which you have furnished to the subcommittee. We thank you for those. They will be included in full in the record of the hearing. We would ask you to make summary statements or highlight those key points for us here so we will have an opportunity for a discussion when you complete your statements.

STATEMENT OF JOHN DATT, SECRETARY AND DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION

Mr. **Datt**. Thank you very much, Senator Cochran and Senator Huddleston.[1]

We are pleased to appear before this subcommittee to present its recommendations concerning the proposed changes in the dairy price support program. The U.S. dairy industry is confronted with the largest imbalance in its history between what is produced and what is sold commercially. This imbalance, and the resulting excessive Government expenditures for purchases of dairy products, has put the dairy industry under close scrutiny and its future in jeopardy.

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[1] See p. 251 for the prepared statement of Mr. Datt.

Recognizing the serious nature of the dairy situation, the American Farm Bureau Federation voting delegates at their recent annual meeting in January approved the following policy statement. You have the policy statement in front of you.

In simple terms, the Farm Bureau is recommending that the current authorization for the two 50-cent-per-hundredweight assessments on all milk marketed be repealed, and that the Secretary of Agriculture be given the authority to establish the support price for dairy products at a level not less than $11.32 per hundredweight.

The Farm Bureau believes that such a program would allow the Secretary the discretion which was made available to him until 1977 to operate a dairy price support program that is responsive to market conditions. It was after such discretion was reduced by the Food and Agriculture Act of 1977 and later removed that the dairy situation became uncontrollable, resulting in the problem being discussed today.

Farm Bureau's dairy producers continue to support the basic provisions of the Agriculture Act of 1949, which provide for a flexible dairy price support program. The proposal we recommend to this subcommittee today continues that basic underlying authority and embraces the following principles we consider essential for any successful dairy program. And there are five of them.

One, it allows freedom of initiative for any individual dairy producer to make his own decisions, rather than operate under any type of Government-imposed restrictive system.

Two, it maintains the type of program that has served producers, consumers, and the industry so well since 1949.

It reduces dairy surpluses by simultaneously reducing milk production and increasing consumption and achieves a reasonable balance between supply and demand.

It is simple to administer and easily understood by dairy farmers.

It provides the Secretary of Agriculture the flexibility over time to adjust, up or down, the economic signals sent to dairymen so the program will remain in balance in future years.

And then we draw some facts and go back to some of the history of the program, all of which you are familiar with, and indicating here that we feel that the major reason for the current milk excess is the demise of the flexibility that we had prior to 1977 and that since that time, as a result of the price support lacking that flexibility, that we have developed the problem that we have today.

We indicate our opposition to any form of base plan, quota plan, dairy producer assessment, or producer payment incentive programs. We feel these programs are designed to encourage a stipulated percentage cut in marketings, fail to address the fundamental problem of overexpansion in the dairy industry.

Turning to the area of promotion, we are not opposed to a promotion of agricultural commodities by producer-financed programs, provided that they adhere to certain guidelines which we have—this is an area where we have had longstanding policy.

The AFBF board of directors at their March meeting made it clear that our member States want to retain the right to decide whether their State should support a nationwide assessment for the dairy promotion.

And in our final paragraph, we indicate our continued support for an increase in the minimum standards for milk, established by the Food and Drug Administration, using the current California standards as guidelines.

I would say, in summary, that we feel the dairy industry is at a turning point. We can continue to proceed along the path of various solutions to the oversupply problem or Congress can pass dairy legislation authorizing a return to the basic principles of the dairy price support program, as it was established in 1949. Anything short of this solution will not resolve the current problems facing dairy producers and will further enhance the possibility that the dairy price support program will be lost altogether.

I would just make one additional comment that is not in our statement that we feel that there has to be action taken by the Congress as soon as possible. A continued delay and continued discussions is only further aggravating the problem. So we are hopeful that the Congress will take some action within the next several months so, one, that we can clear the air in terms of the assessment and determine the direction in which we want to go.

And with that, we thank you for the opportunity to appear before the committee.

Senator COCHRAN. Thank you very much, Mr. Datt.

Mr. Mullins, Robert Mullins, legislative director of the National Farmers Union.

STATEMENT OF ROBERT MULLINS, LEGISLATIVE DIRECTOR, NATIONAL FARMERS UNION

Mr. MULLINS. Thank you, Mr. Chairman.[1]

I appreciate the opportunity. I think this is at least the second go-around. We were here last year talking about the same thing.

I think there is one thing that we all agree on, No. 1 that the cost of the dairy program has to be reduced. However, the Farmers Union is strenuously opposed to reducing that cost through any attempt to lower the current price support level. We think there are better alternatives that can both curtail production and reduce the cost to Government other than an outright price cut.

We just completed our national convention a couple of months ago, and in the policy statement which you have in my prepared remarks are two major points.

We do reaffirm our commitment to the basic price support program as it is contained in the Agriculture Act of 1949. However, we do recognize that one of the major problem areas is that there are no provisions for supply management in the dairy price support program. We think this is one of the shortcomings and would hope that the committee would consider some mechanisms whereby, when needed, the Secretary could implement such a supply management program.

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[1] See p. 258 for the prepared statement of Mr. Mullins.

After having reviewed the various measures which have been introduced in the Congress and under consideration both on the House and Senate sides, the National Farmers Union is in support of S. 509, the Dairy Surplus Reduction Act of 1983. I will not go into the details of that. Senator Proxmire, and Senator Kasten did that very well this morning.

And in a meeting of the executive committee of the National Farmers Union last Friday, they reaffirmed the organization's support for that measure as preferable to just simply cutting the price.

I think there are three objectives that S. 509, our policy statement and, I believe, the members of this committee all agree on. First of all, we must stabilize the supply of milk and also to protect our productive capacity for future needs. Second, we must maintain an adequate level of income for dairy producers and, as I said earlier, must bring the price of the program down to acceptable levels.

Although the issue is not addressed in S. 509, I have included as part of my statement, the Farmers Union position on commodity checkoff programs.

One other point that I would make, Mr. Chairman, and you have raised the question a couple of times already this morning on a direct payment program about limitations of some sort. I would think to protect the integrity of the program from any attacks as we have seen on some other programs in the past, that some appropriate limitations should be included in any direct payment approach.

With that, Mr. Chairman, I will conclude.

Senator **Cochran**. Thank you very much.

Mr. Caruso of the Farmers Union Milk Marketing Cooperative.

STATEMENT OF DOUGLAS CARUSO, GENERAL MANAGER, FARMERS UNION MILK MARKETING COOPERATIVE, MADISON, WIS.

Mr. **Caruso**. Thank you, Mr. Chairman.[1]

I am Doug Caruso, general manager of the Farmers Union Milk Marketing Cooperative in Madison, Wis. We are an association of 6,500 dairy producers in five Midwestern States—Wisconsin, Minnesota, Iowa, Illinois, and Michigan.

I am here today to register our support for Senator Proxmire's bill, S. 509, the voluntary incentive program. I am sure that it has been well covered by other witnesses, including the Senator and Senator Kasten. Therefore, I just would like to make a couple of points about why we think this is the preferable way to go in dealing with the problems of the industry and the budget faced at this point.

USDA studies have indicated over time that a 1-percent change in the farm price of milk will impact supply and demand at about 0.375 percent, a little more than one-third of 1 percent. That means that a dollar cut in price of about 8 percent generously will cut the surplus of milk about 4 billion pounds. That leaves us, unfortunately, with 10 billion pounds of milk in excess of our current commercial demand. The current outlay is about $17 a hundredweight to remove surplus milk from the market; with a dollar price cut, we are talking $16 a hundredweight. So that 10 billion pounds is going to cost the Government $1.6 billion.

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[1] See p. 264 for the prepared statement of Mr. Caruso.

History shows that consumer prices are unlikely to decline as a result of an 8-percent cut in the dairy price support level. And the few times that there have been reductions in the dairy price support level and the farm price of milk, the impact on consumer price has been very minimal. I would suspect that testimony to that effect has been put in the record here. If not, it has been on the House side.

The result then is that we still have a problem. We still have 10 billion pounds of milk and we still have a Government cost of $1.6 billion, if we are going to maintain things as they are. This is why we see the voluntary incentive program preferable, because it goes to the root of the problem, the supply, and gets the supply reduced rather than dealing with the result of that problem, the high cost of the program, and simply moves the cost around or transfers it to producers and this and that.

Like the PIK program, it is clear from surveys done in the dairy industry, the large share of producers would respond voluntarily and reduce production voluntarily if such a program would be offered to them, as it has been to producers of wheat, feed grains, rice, and cotton.

We will restore the balance between supply and demand quite quickly. On the other hand, S. 509 contains limits so that the Secretary can assure that production is not overreduced. He can prorate these contracts to make sure that we do not reduce production too substantially and create a problem in that line.

The program offers a dramatic cost savings to the Government as contrasted with the dollar price support cut. First of all, there is the self-funding provision. Producers are prepared to contribute $675 million, for 50 cents a hundredweight, under S. 509.

Additionally, it is cheaper to pay a producer $10 not to produce that milk than to lay out $17 to buy it and store it and handle it. Well, that is a 40-percent savings right there. You combine the two together and under the VIP plan you can have the cost well below a billion dollars in the first year and probably down to the $500, $600, or $700 million range, which we understood was the goal last year in the budget and it is what we aimed for in designing the VIP.

How can this all be? Well, the VIP simply takes the same amount of gross consumer outlays that is now going to producers, take that same chunk of money; we save the processing and handling and storage costs on 10 to 15 billion pounds of milk, that 40-percent difference between the $10 incentive payment and the $17 cost of removal. We save production costs on the 10 percent of the milk supply that we are no longer going to be producing. And so, with those savings, we take that same amount of money coming from consumers, spread it out over a smaller number of units of production, and what we have is more profitability for dairy farmers.

We have made it more profitable for them to produce less milk and, in so doing, we are going to get them to produce less milk.

Now, on the VIP bases, we do not believe they are going to be capitalized and, if so, very minorly and only for a short period for two reasons: one is the duration of the program. It is only going to last to September 30 of 1985. And, second, under the S. 509 version, the only people who need to establish a base are those who intend to cut back at least 5 percent and want to go in and get their contract to do that. Anybody else does not deal with the ASCS or have a base or anything else. If a new producer wants to come into the dairy business, he does not have to buy a base from anybody; he goes ahead; he is going to have a 50-cent assessment off his milk, true. And under the national milk plan, it is closer to a dollar. But you do not have to have a base for every producer and you do not have to buy a base to get into business. You are just going to have to be willing to pay the freight to get into the dairy business during this period when we are trying to adjust to an imbalance between supply and demand.

I think it is important to understand that S. 509 does not use the base to establish the penalty. The penalty is flat. You do not have to regulate every producer to make sure he pays the right penalty. The only people you have got to deal with and administer with and establish a bureaucracy for are those who come in to get the benefits. And that is very much like the PIK program again.

What is in it for consumers? Well, consumers are going to get probably 5 years of stable prices, unchanged prices, at least in terms of what the farmer gets from consumers, which in reality is a savings for them because of the rise in costs. This comes on top of decades in which dairy prices to consumers rose slower than consumer prices overall, in fact food prices overall.

On the other hand, with the price support cut of a dollar, they are unlikely to see much of any of that, and yet they run some considerable risk because of the serious impact it will have on producers, running them all through the ringer trying to shake out a few, that we could have very unstable future supplies and very volatile prices to consumers at that point.

So, for those reasons, the producers that I represent in the upper Midwest, mostly family farmers, prefer this program because it does go at the problem rather than at some of the impacts, the Government costs, and it deals with it quickly and effectively, and we think answers the objections that were raised about capitalization of bases and designs it in a way to be temporary to get the job done and then get out, because frankly there are an awful lot of producers who are not very eager to have to deal with a permanent base either.

Senator COCHRAN. Thank you very much, Mr. Caruso.

I understand we have Jim Miller instead of Mr. Fredericks, who is here representing the National Grange.

Mr. Miller.

STATEMENT OF JAMES MILLER, ASSISTANT LEGISLATIVE DIRECTOR, NATIONAL GRANGE

Mr. **Miller**. Thank you, Mr. Chairman.[1]

I am Jim Miller, assistant legislative director for the National Grange. The statement for the National Grange policy has been submitted to the record, and I would like to take just a minute or two to summarize that.

National Grange is a general farm organization. We have membership in 41 States. Thousands of our members from New England to the west coast are engaged in the dairy industry. Most of our dairy members have small to medium-sized dairy farms with herd size ranging from 30 to several hundred milk cows. They are family dairy enterprises, embracing father-son partnerships, incorporated family dairy farms and sole proprietorships.

National Grange Dairy Committee considered at length the various base plans, cow culling and other plans being offered as solutions to the present problem facing the dairy industry. It was determined that any program being offered should take into consideration the utilization of the mounting surpluses by increasing dairy product promotion and stabilizing milk production through a disincentive for increased production and incentive for reducing national surplus.

The dairy committee cautioned that care must be taken not to cut production so drastically that demand begins to exceed supply. We realize that is a far cry from where we are now, but it must be assumed to be a possibility out there and one that this committee should take steps to avoid. This would result in a rapid increase in the retail price to consumers and would have numerous adverse impacts. Dramatically higher prices would result and lost customers, increased imports and an increase in the use of imitation dairy products.

The committee expressed their support for a dairy price program that will not utilize price as the sole criteria in reducing the current oversupply. Support price alone did not create the present surplus, but it is more the result of the depression in other segments of U.S. agriculture; as long as the milk feed price ratio is favorable, dairy farmers will continue to keep low-producing cows and force feed high producers, thereby adding to the mounting surplus.

Increased feed grain and cattle prices would not only aid the producers of those commodities, but would have a positive effect on reducing milk production.

The National Grange policy on solving the current oversupplies included in the appendix to the statement that we have submitted—and I will not take the committee's time to go through that step by step. Let me say that the Grange's support for our plan is not set in concrete. We will support any plan or combination of plans that meets the criteria of balancing supply with current demands, provides adequate income incentives to gain the necessary compliance to make a self-help version of the program work, maintains dairy farmers' income at the level necessary to sustain the dairy industry, and distributes the cost of the dairy program equally to all producers in proportion to their production.

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[1] See p. 266 for the statement of Edward Andersen, Master, National Grange.

We would support a plan that reduces the cost of the program to the U.S. Treasury. Indeed, we see that this is necessary and we would support a plan that contains a mandatory assessment on all milk marketed for promotion and stabilizes prices to producers and consumers.

Such a program should contain: one, a strong economic penalty to discourage production over the present demand. It should include incentives to reduce or maintain base period production, including a direct payment for production reduced below a specific level; three, it should contain a provision to allow new producers to enter the market in some form; four, a base period should be based on average annual production during the past 3 years, 1980, 1981, and 1982; five, it should contain a sunset provision for the emergency dairy program.

I would like to add too that any program that this committee would develop we feel must be fair to family farmers and not unduly press them out of the competitive posture in the dairy industry.

I would like to summarize by saying this: It is the Grange's sincere desire to assist in the development of a dairy program which the majority of the industry can support. Although this is a difficult task, we believe that it is possible, but it will only be possible if the Congress, the administration and the leaders in the industry set about the task in good faith. We are committed to this end.

Thank you.

Senator COCHRAN. Thank you very much, Mr. Miller.

Ed Graf of the National Farmers Organization.

STATEMENT OF ED GRAF, CHIEF ASSISTANT TO THE PRESIDENT, NATIONAL FARMERS ORGANIZATION, ACCOMPANIED BY CHUCK FRAZIER, AL SMITH, AND JOHN HOWLETT

Mr. GRAF. Thank you, Mr. Chairman.

I will be brief also and just summarize what we have in print here for you.[1] I am the chief assistant to the president of the National Farmers Organization. I have with me today Chuck Frazier, our legislative representative, director of our Washington office; Al Smith, a dairy farmer from New York, and also the State president of the National Farmers Organization, and John Howlett from Kentucky, who is on our national board of directors and also a dairy farmer. We represent agricultural products across the United States and dairy is one of the main commodities that we represent.

I have listed here the States, in this particular document 19 States, which include the heavy dairy producing areas of the United States.

There are six things that I would like to point out to the committee that we believe are very necessary. No. 1, we must not reduce the gross income to dairy farmers. We must reduce production. Three, we must stay within the budgetary requirements. Four, we must contain a paid incentive to dairy farmers who reduce production below an established base. Five, the support price level must be related to parity and, most of all, this program must be broadly acceptable to dairy producers.

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[1] See p. 274 for the prepared statement of Mr. Graf.

We believe that bill H.R. 1528, its counterpart S. 509, meets these necessary criteria. We have in fact held meetings in the past several months across the United States where we had dairy producers from various groups including MidAmerica, AMPI, Dairymen Inc., Farmers Union, and independent producers, and there has been amazingly strong support for a program that will meet these criteria.

The benefits to dairy farmers and consumers under the voluntary incentive plan really are numerous. First of all, to the dairy farmer it is voluntary; it is not mandatory. They are paid that incentive to reduce production which is necessary. ASCS can keep the records on this and it will be a simple program, between 5 and 30 percent, with the provisions for the Secretary to protect the Nation from a loss of supply of milk that is needed, a stabilization fee of 50 cents per hundredweight, and it will be uniform, which I think is very important. It will be simple to administer.

A stabilization fee will insure reduction in the cost to operate the support program and will generate funds necessary to make incentive payments to the dairy producers that will reduce their production.

But most of all, we must maintain his cash flow. I, as a dairy farmer, until recently understand that a program that took money out of my pocket made me produce more, whether I liked it or not. I had no alternative.

As we understand, the National Milk Producers Federation plan contains the concept of an incentive payment to producers who cut production. We support that. We are concerned that it is a confusing plan inasmuch as the assessment rate is not uniform. We believe that the plan that we are presenting is uniform and easy to understand.

Any legislation that reduces the present level of support price will not work. It has been proven in grain and it has really been proven in dairy. The benefit to the consumer has not been there to drop the price of milk. It has not done what sometimes we would like to think it will do.

I believe we ought to learn from the grain program, which has been so successful at this time. Look what happened when an attractive paid diversion was instituted. Farmers really participated. The same will happen in the dairy industry under the VIP program, if it is adopted. If the support price is reduced, there will be many cheese producers today who are going to take a fleecing on their inventory. If the support price is reduced by a dollar a hundredweight, that is going to be 10 cents on every powder and cheese that he has got in storage.

In dairy, unlike grain, the producer will fund the program. We are opposed to the mandatory 15 cents promotional fund, but we are not opposed to advertising. We simply believe in our organization that farmers should have the right to vote on a program, one vote per member. We just do not believe in the block voting system. We believe it should be more democratic.

The dairy provisions enacted into law last year, the Omnibus and Reconciliation Act of 1982, they have been strongly rejected by the dairy farmers. The fact is the present legislation will have the opposite effect and will increase production. The present assessment provisions are devastating to farmers, especially the young farmers and those who are highly leveraged.

For these reasons, it is imperative that new dairy legislation be enacted immediately and one that will not put farmers out of business, one that will let them maintain their cash flow.

So we strongly support a vital and timely passage of the bill, H.R. 1528 and S. 509. We thank you very much for having this opportunity to express our view.

Senator COCHRAN. Thank you, Mr. Graf.

Well, I do not know any one question that I can ask that I can get the same answer back from this panel. We do have apparently a wide divergence of views represented in the panel. We appreciate that. We know that among the different regions of the country and the different organizations who represent the farmers in those regions, we are going to have differences of opinion.

In the incentive programs, you have heard some farmers talk about what a limitation is going to mean in terms of the dollar amount. I think Mr. Mullins suggested that there probably should be a limitation. What is the National Farmers Organization attitude about that? Is there any sympathy for limiting the total dollar amount of a payment to a farmer for cutting back production?

Mr. GRAF. No. We do not take a stand on that. I heard some other testimony on this earlier. I am not opposed to a large farmer receiving $800,000, $60,000—regardless of what it is. It makes me feel like saying that I would be opposed to a man that has an oil well on his farm and became a millionaire. We are trying to do something about the supply of milk.

And I think our feeling is that we get into arguing about that. If the right is there to protect the volume of the milk, it will come from the producers through a plan, not necessarily a penalty but certainly he is not going to receive any benefits. This is a program that was designed for benefits for the dairy producer, for the consumer, and a program that I think will be accepted by the producer.

Senator COCHRAN. Is the incentive program out of line in terms of reality of projected income? Given a farmer who is milking 150 head of cows, how much out of line is that $60,000 payment if he cuts back 30 percent with the amount of income he might have earned had he gone on and milked those cows?

Mr. GRAF. I have not done any personal work on that. However, I believe Dr. Crop from the University of Wisconsin has. I think it is close to being in line and not out of line with anything that we can come up with at this time.

Senator COCHRAN. I used these figures in questioning the Deputy Secretary about the differences in profits and the cost of production from one region to the next; 70 cents as the average profit for a Southeastern dairy farmer compared with $2.43 for an average producer in the upper Midwest. Should there be any regional differences in the incentive programs written into the law? Does this mean that in the places where you have a higher cost of production, you are going to have greater participation in an incentive program?

Mr. **Graf**. I believe this is a national program and I do not think we should go regional on this. I would like to give you an example of it. A week ago Monday, I was in Clark County, Wis. Clark County, Wis., has one of the heaviest dairy herd populations for its size in the State of Wisconsin. If you could see the number of farmers today that are trying to get out of the business—those having their farms sold and no young farmers wanting to purchase these farms, you would question that $2.43 profit.

It seems to me anyone that wanted in dairying, if they could see that kind of profit, would be right in there looking for that farm because that would be pretty good wages today. But we do not see that. I question those numbers very much; I think it is a national program, or a national problem, I should say.

Senator **Cochran**. I do not know where these numbers came from. Do you know what the average producer in the upper Midwest makes?

Mr. **Graf**. I have not seen those figures, no, sir.

Senator **Cochran**. What limitations, Mr. Mullins, do you think would be appropriate in any incentive program?

Mr. **Mullins**. I would be hesitant at this point, Mr. Chairman, to state a figure. Our concern on recommending a limitation of some sort are both political and public relations in nature. No. 1, I do not think we want a program that becomes discredited and possibly jeopardize the future of the program by making some of these very, very large payments. I alluded in my earlier remarks, as you know, we ran into that problem in other commodities programs in the past. And that is one of the reasons why we have the $50,000 limitation in the law now.

I cannot say what the level should be, $50,000 or $100,000. I think you have to take a look at where the problem is, what type of participation we want in the program, and then I think you could establish a limitation to attract that type of producer.

Senator **Cochran**. Mr. Datt, is your testimony reflective of the dairy farmer members of Farm Bureau around the country? Is that the consensus that was developed from the dairy farmer committee members or general membership of Farm Bureau?

Mr. **Datt**. Well, I would say that it reflects the combination of the dairy farmer and general membership. We have more dairy farmers in the Farm Bureau than probably any other organization. We start at the county level and go through the State level, and I think it reflects both a combination of our dairy membership and our general Farm Bureau membership in terms of the direction that they feel that we ought to go.

Senator **Cochran**. What is the appropriate level of support price right now, in your judgment?

Mr. **Datt**. I do not know that I can give you an appropriate level. In our judgment, $13.10 is too high. We have indicated in the statement that it would probably take an adjustment in the price support; somewhere in the neighborhood of $1 or $1.50 would begin to start to correct the problem. So you probably are talking of somewhere in the neighborhood of $11.60, somewhere in that area probably as your minimum floor that you would have to go to.

I should point out that the $11.32, where it came from, it happened to be 60 percent of parity at the time of the annual meeting when the policy was adopted. We could have taken $11.40, $11.50, or any particular other figure.

I think, Senator, you know, if you look at this, during the period when we had the discretion with the Secretary and there was some flexibility, there was always the question of what level we were going to have. There was a certain amount of uncertainty. And then we put a certainty in it and I must say for the record, we supported it, going to the act of 1977 and so on and so forth.

But what we in effect then did is we eliminated the uncertainty. We put a certainty in and dairy farmers would begin to produce against the certainty, and I think that it has led to the difficulty that we are in today. I think that we did not get into this problem overnight. And, therefore, we think we have to allow some time to work out of the difficulty.

We think the reduction in the price support is the most equitable as it relates to all the various regions. It eliminates any regional problems that might come with some other incentive program. So that is why our folks are recommending that particular approach.

Senator **Cochran**. Senator Huddleston.

Senator **Huddleston**. Thank you, Mr. Chairman.

Mr. Graf, you said that the objective ought to be to reduce the surplus, reduce production but maintain the gross income of the producers. Now how can you do that without an actual increase in the product?

Mr. **Graf**. We feel that the incentive program would help the dairy farmer to keep his price, where he could maintain a gross income so that he could operate the type of farm that he is now on.

Senator **Huddleston**. Let me ask all of you. Of the various plans you are suggesting and the others that you may be aware of, to what extent would the reduced production come about by reducing the number of producers; that is, driving a certain number of producers out of business, and the marginal ones maybe, and to what extent would it be spread over the number of producers that we have at the present time?

It seems to me what the objective really ought to be is to try to spread this reduction among all producers, keep as many of them in business as possible, rather than achieving a reduced production level by just driving a certain number out of business altogether. We will start with you.

Mr. **Graf**. I think that is exactly what will happen if you reduce the price support, because we have many young farmers and highly leveraged farmers that are simply not going to be able to make it if you cut their income.

That is why we feel so strongly that we have got to maintain income for those people. Now what will happen to the others who survive a price support cut? My guess is they are going to put on more cows and get bigger.

Senator **Huddleston**. Drive a number out of business and not to have at least a proportionate amount of reduction.

Mr. **Graf**. That is exactly what I think is going to happen. I think you will have production hold and less producers.

Mr. **Miller**. Senator, if I might respond. We share your concern and we too consider the fact that the need to readjust the dairy program is brought about because of its increased cost to the U.S. Treasury. Reducing that Treasury outlay has got to be the main focus. Yet at the same time, it must be kept in mind that the hurt that is going to be caused in order to reduce that Federal outlay, we agree, must be shared as widely as possible and whatever can be done by this committee and by the other body in Congress to proportionately distribute that hurt is certainly going to be the most advantageous way to go right now.

Mr. **Caruso**. Well, I think the question that you have raised points to a merit of the VIP plan. The Hoard's Dairymen survey indicated, and I think it is very good evidence, that something like 60 to 65 percent of the producers, regardless of region, generally across the country would volunteer to do this.

The payment is limited to 30 percent. So it is not likely that a lot of people are going to go out of business entirely, although it may encourage some producers who are perhaps closer to making that decision due to age or other circumstances to, through attrition, go out of business entirely and we think that is good in that that then permits some younger producer somewhere else, who really is not in a position to cut production right now because he is trying to build his farm to a viable size, the opportunity to do so.

Mr. **Mullins**. Well, I have no empirical evidence, Senator. But I would agree with the gentleman from the NFO that you may well lose some dairy farmers. You are not going to lose those dairy cows. They are just going to go into a larger production unit, and you have not solved the oversupply problem. You have solved a number of farmers' problems, if that is your intent.

Mr. **Datt**. Well, Senator, first of all, I would say that if there were some plan or some approach that would solve this problem without someone being hurt, we would have arrived at it a long time ago. As we attempt to make this adjustment, someone is going to get hurt. There is no question about that. And anybody who denies that or tries to devise a plan that avoids that is kidding themselves.

I think you will get a combination of both. You will get a combination of a reduction in both the number of dairy farmers and you will also get a number who will reduce their herd size. It will depend on the individual farmer.

We do not accept the kind of thinking that in the shortrun you might get a production increase, but as Deputy Secretary Lyng has testified, all the laws of economics indicate that price is going to have any impact; it defies all the laws of economics to suggest otherwise.

I would simply say that you will get a combination of both. And we think that lowering the price support level gives you a better way to make that adjustment and make it over a period of time.

Senator **Huddleston**. In your approach of flexibility for the Secretary to set the price, do you include a formula? Are there automatic provisions relating to increases?

Mr. **Datt**. We came in last year and we had a proposal that tied the price support level to the net cost between the various amounts owned by the Commodity Credit Corporation. It was too rigid.

And so, after discussion, we chose to come with something which is less rigid, but in effect we are saying for the Secretary to tie his basic decisions as to what level of dairy price support would be determined by the level of the Commodity Credit Corporation's net purchases without putting any specific figures into it. He knows what they need in terms of their various nutrition programs and so on and so forth. And so we backed away from the specific number that we had a year ago.

Senator **HUDDLESTON**. Do the rest of you feel like there ought to be some sort of specific formula that would determine what the price would be without regard to the supply that it might produce.

Mr. **MULLINS**. Well, I can certainly support the provision in S. 509 which would statutorily set the price. Personally, we would like to see it a little higher but that probably is not a practical matter at the moment. But we would support the continuation of the statutorily mandated price.

Mr. **CARUSO**. We would be inclined to see the $13.10 maintained until we are out of the problem. We would oppose the discretion that is suggested by the Farm Bureau.

Mr. **MILLER**. Senator, I think we would consider allowing the Secretary to have some level of discretion within pretty reasonable bounds but only after a period of time that we had an opportunity to get from under this mess that we are in and hopefully stabilize the prices in the other sectors of agriculture as well. And if the plan does include some sort of sunset provision, as we recommended, at the end of that time then we could take hopefully a more even look at what is going on and make the decision at that time.

Senator **HUDDLESTON**. Does your provision on the sunset presume that you would then return to the plan that we have now.

Mr. **GRAF**. I believe cutting the support price right at this time is not the answer. If we go with this bill, S. 509 I think we will get the results that we want. I just cannot see reducing the support price at this time.

Senator **HUDDLESTON**. That is all.

Senator **COCHRAN**. Thank you Senator. We thank you for helping us, being here and contributing to the hearing in the way that you have. Thank you very much.

We now have a panel of Ellen Haas, representing Public Voice, and Rodney Leonard, executive director of the Community Nutrition Institute. We welcome you to the committee. Thank you for coming.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY, ACCOMPANIED BY THOMAS B. SMITH, DIRECTOR OF GOVERNMENT AFFAIRS

Ms. **HAAS**. Mr. Chairman, Senator Huddleston, I am delighted to be here. I am Ellen Haas, executive director of Public Voice for Food and Health Policy, which is a new consumer organization conducting research, education and advocacy on food, nutrition and agriculture issues. I do have a long statement and I would like to summarize it and ask that my entire statement be in the record.[1]

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[1] See p. 278 for the prepared statement of Ms. Haas.

Senator **Cochran**. It will be included. Thank you.

Ms. **Haas**. Thank you.

I also am accompanied today by Thomas B. Smith who is our director of Government affairs.

In addition to serving as executive director of Public Voice, at this time I am also the president of the Consumer Federation of America, the Nation's largest consumer organization.

To begin with, consumers are very concerned about national dairy policy. There are several reasons why: One, dairy products are highly nutritious, thus consumer access to these nutritious dairy foods is important for health reasons and therefore efforts must be made to make sure that milk remains reasonably priced. In addition, Government involvement in dairy policy is important in order to stabilize the industry's price and supply fluctuations and provide a reasonable amount of financial security to dairy producers, which is a way of guaranteeing that consumers continue to have adequate supplies of dairy products.

However, as we all know and as this hearing attests, in the past few years the program has become greatly imbalanced. Supply today vastly exceeds demand and the Government is being required to purchase an enormous amount of surplus dairy products. Thus far, inadequate channels for distribution to the needy have been found, although I must say Senator Dole's Commodity Food Distribution Act would increase these channels to some degree.

However, the result is of all of our hearings and all of our soul-searching, the vast majority of these products sit in Government warehouses. There is no doubt that this is wasteful and inefficient and it is costing the Federal Government billions of dollars annually.

Policies over the past 6 years, which caused price support levels to be set higher than necessary to call forth a supply adequate to meet consumer needs have caused these problems.

At this point we must decide whether it is a good idea to proceed with the assessment or find another solution to our problem. We firmly believe that we should look toward another solution and that the most straightforward and effective solution available would be to simply reduce the level of price support.

At this time, I would like to comment very briefly on several pending proposals to correct those problems. To begin with the producer dissatisfaction with the assessment has led to a bill introduced by Senator D'Amato—a deceptively simple approach of merely ending the assessment. However, let us remember that the assessment was put in place to deal with the massive problem of dairy overproduction and, if we simply eliminated the assessment without doing anything about the surplus problem, it would be nothing more than throwing up our hands in disgust with this $2½ billion annual program.

What we need is decisive action to reduce the surpluses. And it is just as necessary today as it was when the assessment program was first adopted.

Another proposal, the so-called base plan approach, has already been explained by its advocates. Though it would result in some producer price reduction, just like the assessment, and would be expected to result in some decline in production, it would involve no cost-price reductions for consumers and thus would be unlikely to result in an increase in consumption.

Also a whole new bureaucracy would be needed to administer it and it would take considerable time to become operative.

A very real consumer concern to this approach is the fact that if for any given year total production were underestimated in the formula and the base plan percentages were set at too low a level, a milk shortage could result which could lead to skyrocketing consumer prices.

Another alternative would involve a reduction in the support price for manufacturing grade milk only. Though there would be some help in increasing consumption, we do not believe it would help as much as simply reducing the support level directly.

Finally, producer assessments have been proposed which are specifically intended for use in advertising and promotion. We believe it is an improper role for Government to tax consumers for the purpose of conducting proprietary advertising campaigns which can be and are now being conducted by the industry on its own.

Mr. Chairman, we feel that the most effective, efficient, straightforward and fair manner through which the imbalance in the dairy price support program can be corrected is to simply reduce the price support level by at least a dollar per hundredweight and perhaps a dollar-and-a-half if it becomes necessary that a dollar were insufficient to sustain such a reduction. This provides a major incentive for consumers to buy more milk because the prices are more reasonable; by increasing their purchases of dairy products, it helps solve the problem and, most importantly, it involves no additional bureaucracy.

This approach is embodied in S. 658, a bill sponsored by Senator Hawkins. As the plan could be set in motion immediately, budgetary savings would soon begin to accumulate as production adjusted downward and consumers began responding to lower prices by purchasing more milk products.

We have called around to the supermarkets in the Washington area. Based on the big jump in consumption they have witnessed from recent price deductions, it seems certain that a 10 percent reduction in milk price support levels would result in a significant increase in consumption.

Consumers clearly prefer direct reductions in support prices so that the prices they pay at the grocery store are similarly reduced and their ability to purchase nutritious dairy products is enhanced.

For these reasons we believe this solution serves not only consumer interests but all interests of the dairy sector and the best option today is to reduce price support levels. If this policy were adopted, as production began to respond to reduced prices and milk consumption began to increase, the dairy surpluses would surely diminish. At that time, Mr. Chairman, we would suggest that this committee reconvene to consider the development of a price support index, which either tracks dairy production costs or is specifically designed to set support prices so that the level of supply called for is roughly equivalent to consumer demand in the marketplace.

It is through the development of this kind of index that relates to production and demand that the problems we have recently experienced can be avoided in the future. We value our milk. We value the nutritional benefits it confers on consumers. And we want a program that works for the consumers as well as the producers.

I thank you.

Senator COCHRAN. Thank you, Ms. Haas.

Rodney Leonard, welcome.

STATEMENT OF RODNEY E. LEONARD, EXECUTIVE DIRECTOR, COMMUNITY NUTRITION INSTITUTE

Mr. LEONARD. Thank you, Mr. Chairman.

My name is Rodney E. Leonard and I am executive director of the Community Nutrition Institute. We are a public interest, nonprofit organization, specializing in consumer food issues.

I have a very brief statement, which I would like to read, and then some inserts that I have already submitted to the clerk.

Mr. Chairman, there is something strangely wrong about our priorities when the Federal Government can spend a billion dollars to buy cheese to give it away, only to purchase the cheese again, but it cannot find the money necessary to adequately feed the hungry in America.

There is something strangely wrong with a dairy program that encourages farmers to produce more milk than the industry has the capacity to process into butter, cheese and dry milk powder; more product than for which storage space is available. I would like to submit a report from the National Dairy News for the record on how dairy co-ops are moving surplus milk long distances currently, simply to find processing plant capacity.

Senator COCHRAN. We will be happy to have the report and it will be included in the record. Thank you.

Mr. LEONARD. And there is something grossly unfair about a food policy that will provide 250,000 dairy farmers with as much assistance as is given to nearly 23 million children to obtain a lunch or breakfast in school. Yet, the present dairy program, if unchanged, will cost over $3 billion in 1984, nearly as much as the school lunch and breakfast program does today.

There is a cruel irony in the fact that Congress is waiting on dairy farmers to say what kind of program the Congress should enact, when for the past 2 years the Congress, and this committee particularly, had no problem in taking billions out of food programs for hungry families and children without even consulting them.

It should be abundantly clear by now that the leadership of the dairy industry has no acceptable alternative to current dairy policy. However, alternatives do exist.

About a month ago, dairy experts met in Syracuse, N.Y. to discuss this problem. They concluded that the problem is not dairy income but the failure to market milk and dairy products. Dairy farmers should redirect their efforts from regulating milk to marketing milk, the experts said. They felt the regulatory structure is being abused and that the leadership of the industry dwells on programs geared to protecting the dairy farmer from the marketplace.

That is a fair assessment of the proposals you are being asked to consider. The National Milk Producers Federation wants a base plan, for example, and they want members to be paid not to produce. A base plan would be nice. Everyone should have one. If I had one, I could become rich by selling my base to someone else, which is why dairy farmers want you to create a new wealth for them. Please do it for me too.

Please pay me for not producing milk also. I would be willing to not produce milk for a lot less than most dairy farmers and I would agree not to produce milk for at least 10 years if you paid me for not producing this year.

Perhaps it is not obvious, but no industry can be protected from market forces indefinitely, and the dilemma that has sprung to full bloom in dairying is a prototypical example.

Price supports and the classified pricing system assume that price increases have little impact on consumption. Trends in milk consumption show the opposite. Classified pricing imprisons the industry in marketing practices dictated by bureaucrats, by market order administrators, rather than by consumer demand. Classified pricing subsidizes the shift of milk output from regions of greater to those of lesser efficiency. Classified pricing generates 20 to 30 percent more grade A milk than will be consumed at current prices, more milk than plants can process into dairy products that only can be sold to the Federal Government.

Nor will it help to give away surpluses. Cheese donated over the past 6 months simply has replaced cheese that would have been sold commercially. Look at the facts: Cheese purchases have increased 70 percent in the first 5 months of the marketing year while butter and dry powder purchases are up less than 10 percent. Low and moderate-income families consume more milk and cheese than do other families. For example, food stamp households spend 21 percent more on milk and 17 percent more on American cheese than do other households, according to USDA studies.

So now we are spending about a billion dollars on a cheese giveaway program, which includes the purchase, processing, and distribution. Nearly every pound of donated cheese comes back to the Federal Government. Does it not make more sense to increase the buying power of poor Americans by a billion dollars and increase the market demand for food, including cheese and milk?

Clearly that is not an easy answer, but it does lead to the right question: Should the Congress be concerned only about dairy profits? Can the Congress ignore the market side of the problem?

I think the time has come for basic changes in dairy policy, for the Congress to be as innovative in policy as industry is in its technology and production management.

First, reduce price support levels by $2 a hundredweight as an immediate step to reverse stock buildup and to increase consumption.

Second, lift immediately all regulations and regulatory practices that isolate the dairy producer from the needs of the consumers. Encourage innovation, new product development. The $2½ billion dairy program is more the cost of failure in marketing than of excess production. Is it congressional policy to subsidize bad management?

Third, set a day for the phased-out end of the classified pricing system. It is a public policy concept as dangerous today as it was essential in the 1930's.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you very much, Mr. Leonard.

Last year, when we had a bill on the floor, there was an amendment offered to impose the minimum standards they have in California on the solid content in milk. There was a good deal of controversy about what the consumer advocates were suggesting, whether they were for that or against minimum standards.

What is the position now of Consumer Federation of America or Public Voice, or Ellen Haas?

Ms. HAAS. Mr. Chairman, last year we made very clear at the time of those deliberations that we opposed the change in the standards and thought that it would have a major adverse impact on consumers, and we maintain that position today.

Senator COCHRAN. Because of increased costs?

Ms. HAAS. Because of increased costs and a reduction of the variety of low fat milk products made available.

In fact, many consumers like 1 percent milk fat, and by changing the standards, you could eliminate that product from the marketplace, because the taste would be such that it would have no appeal to consumers, by adding the solids it would become too "chalky" in taste. And, in fact, in those markets where they have increased the solid standards in the way proposed last year 1 percent milk has not been sold. Thus, for both nutrition and economic terms we very strongly opposed the Hayakawa amendment and intend to continue our opposition to any similar plans that might arise this year.

Senator COCHRAN. What is your view on that, Mr. Leonard?

Mr. LEONARD. I agree with Ellen's position on that. This also was a question that was raised at the New York conference, and there was a general feeling there among the experts who were participating that this is another example of how you try to regulate consumption rather than focus on the basic marketing problems that the industry faces.

Senator COCHRAN. Senator Huddleston.

Senator HUDDLESTON. I have no questions. I think you made a good presentation.

It seems to me that consumer interest is, as you have recognized, that we maintain a stable supply of good quality milk. And, the question too is that anything to adjust the program, I think, insofar as reducing prices just simply must be passed on to the consumer. I think we are defeating our purpose if we do not do that and that is what the assessment is doing.

Ms. HAAS. We certainly agree, and at the time of the deliberations never favored the assessment and do not today. We came before this committee in support of reducing the price support level, just as we are coming before the committee again today, because that way the consumers benefit and the industry benefits by increasing consumption. The more reasonable the price, the more I am going to buy for my family, the more milk is going to be sold, and the more the producer benefits.

Senator COCHRAN. Does Senator Hawkins' bill provide for discretion for the Secretary of Agriculture to continue to reduce the support price after the initial dollar reduction?

Ms. HAAS. There is a trigger mechanism, I believe, that if the production does not decrease enough and if CCC purchases do not decline enough. An additional 50-cent reduction can be included but no more, so there is not——

Senator HUDDLESTON. Based on the amount that they purchase.

Ms. HAAS. Yes. It does not go into the problem that we faced last year where there was so much discretion to set price randomly, as proposed by the administration.

Here it is very clear that only under certain circumstances could the price go down an additional 50 cents.

Mr. LEONARD. Thank you, Mr. Chairman.

Senator COCHRAN. Thank you for being here and helping us with the hearing. We appreciate it. Thank you, Tom, for coming over.

Ms. HAAS. Thank you. Senator Cochran, we look forward to your speech at our Nutrition Conference next week.

Senator COCHRAN. I am looking forward to it too.

This concludes our hearing on the issue of dairy price support programs. I do not know how to sum up all the testimony in one sentence or even a paragraph, but we are confronted with a very important challenge. We realize the necessity of moving quickly to try to develop a consensus in Congress for doing away with the assessment, and putting something more acceptable in its place. We appreciate very much the cooperation of all of the witnesses who testified. Thank you very much. The hearing is adjourned.

[Whereupon, at 11:35 a.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. PATRICK J. LEAHY
A U.S. SENATOR FROM VERMONT

Mr. Chairman, I want to commend you for holding this hearing today and for your continued diligence in working to find a solution to the dairy surplus problem.

Members of the Committee, the industry, and the Administration must begin to work now on changes in the dairy price support system.

Too many farms are at stake for us to continue along the path we have followed the past two years--a path that has led us twice to the last possible day of a legislative conference committee with no clear dairy policy in sight.

Twice under these conditions, we have enacted changes in the dairy program which have not adequately addressed the problem.

Mr. Chairman, on March 16, Secretary Block announced that he wants Congress to change the dairy program again--for what will be the sixth time in two years.

He also made it clear that he wants a price support cut now and total discretion with regard to the level of price supports in the future.

This is unacceptable to me. This same plan was rejected by this Committee and the full Senate last year.

At the same time, however, the Secretary said he will begin collection of the first of two, fifty cent per hundredweight assessments scheduled under current law.

While the Secretary said he does not support the assessment plan, he cannot ignore the $60 million per month that the first assessment will bring in.

Well, you cannot have it both ways.

The Administration has got to become an early and active participant in this year's dairy debate. It can no longer sit on the sidelines until the last possible minute and then reject what Congress has offered.

Mr. Chairman, the milk overproduction problem presents a complex and difficult situation. Regional differences in production, surplus purchases, and marketing orders are just some of the factors that make up our current dairy situation.

Common to all, however, are the market conditions driving dairy production over the past three to four years.

Grain prices--which make up 70 percent of the dairy farmer's cost of production--have remained at historic lows for several years. The cull cow market has been weak, prompting many farmers to keep cows in the herd that might normally have been sold to slaughter. The price for milk was relatively good.

With this combination of conditions, dairy farmers increased production.

At the same time, consumption of milk and milk products continued to decline. Whole milk consumption has dropped by nearly one third since the early 1960's.

Supply has clearly outstripped demand, and the size and cost of the surplus continues to grow.

I would hasten to point out, however, that the record levels of milk production are a relatively recent phenomenon.

In 1979, the net cost of the program was $250.6 million. Over the 34-year history of this program, net costs have averaged one sixth of what they are today.

The market conditions that led to this sudden run-up in dairy costs will not last forever. In fact, grain prices have already shown remarkable strength due to the effects of the Payment-in-kind program. Paul Stone, a dairy farmer from Orwell, Vermont, who will testify later today, told me that his grain prices are up $7 a ton since the beginning of the year.

The price for milk has actually declined slightly over the past two years, and the cull cow market has shown some sign of renewed strength.

We are dealing with a relatively short term problem. Market forces are already at work in the dairy industry and can be expected to bring about some reductions in production.

I would caution this Committee not to overreact. Slashing price supports or creating overly generous incentive plans may work to not only erase the surplus, but to cause shortage conditions in this country.

Instead, I believe that a reasonable combination of incentives to the farmer to reduce production and efforts to promote increased consumption of dairy products is the best path to follow.

On March 21, I introduced the Milk Program Improvement Act of 1983 (S. 866). I am pleased to report that my colleague from

Vermont, Senator Stafford, is a cosponsor of this legislation. This bill would enable those farmers who cut production to their 1980 levels to receive a rebate of 95 cents of the total $1.00 per hundredweight assessment scheduled under current law.

The remaining nickle would be used to generate more than $60 million per year to fund a national dairy product promotion campaign.

Through increased consumption, and reduced production, the size and cost of the dairy surplus can be reduced.

I am pleased to note that this incentive/promotion approach--which I first proposed in November of last year--is contained in several other proposals the Committee will hear about today.

First, most proposals contain incentives for farmers to cut production. This is essential. If we simply lower the support price, farmers will be left with just two options.

They can either increase production or sell the farm.

If we want to encourage less production, then we must provide an incentive.

Second, most proposals contain promotion programs. This is essential as well.

The dairy industry is currently being outspent by the beverage manufacturers on advertising on the order of 49 to 1. A dairy promotion program will enable producers to recapture some of the markets they have lost to soda and other drinks over the past several years.

The incentive/promotion concept can work.

Mr. Chairman, this Administration has gone to great lengths to devise and implement the Payment-in-kind (PIK) program. This demonstrates to me that USDA can tackle a difficult agriculture problem in an innovative way.

It is time for a similar effort with regard to the dairy program. I urge the Administration to work with Members of this Committee and the Senate to reach a consensus on this question. I also request that they complete and make available the dairy report we requested in the 1981 Farm Bill. That report--now four months overdue--would provide this Committee with the facts we need to formulate the best possible dairy policy.

Mr. Chairman, with good faith efforts on the parts of all involve, I believe a consensus on this question can be reached.

If we do not work together, if we allow the divisive positions of the past to continue, we will wind up once again at the end of the line with a dairy policy that nobody can suport, that nobody likes, and one that serves neither the interests of the consumer nor the dairy farmer.

STATEMENT OF NORMAN H. BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

I am Norman H. Barker, a dairy farmer from Pratt, Kansas. I am President of the National Milk Producers Federation and a member of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, Texas.

The National Milk Producers Federation is a national farm commodity organization representing dairy farmers and the dairy cooperative marketing associations they own and operate throughout the nation. The vast bulk of the nation's milk supply is marketed by farmers through their dairy cooperatives. These cooperatives represent the effort of the individual farmer to provide himself with effective representation in the marketing of his product and to assure a market at reasonable prices for his production.

Through the National Milk Producers Federation, dairy farmers and their cooperatives have provided a forum in which they can effectively address issues of public policy which impact on their industry. Organized in 1916, the Federation is the oldest and largest national farm commodity organization. Through a combination of means, the process of policy formulation within the Federation provides dairy farmers across the nationa an opportunity to participate in the development of policy proposals for their industry.

My remarks today will be directed toward the Dairy Compliance Program which addresses the need for temporary changes in the Dairy Price Support Program and the National Dairy Promotion Program which is an integral part of the comprehensive effort dairy farmers have developed to address the problems our industry confronts.

THE DAIRY PRICE SUPPORT PROGRAM

The Dairy Price Support Program is a basic element of national agriculture and food policy. Since its initiation as part of the Agriculture Act of 1949, the program has provided a minimum degree of price assurance to farmers as the means of assuring the production of adequate supplies of milk for the markets of this nation.

Over the past two and a half years, there has been much discussion and debate regarding the need for adjustments in the program. In all of this, there is the very real danger that the basic success of the program may be overlooked. The program has been effective. It has worked. It has assured adequate supplies of milk and dairy products for the consumers of the nation at ever declining real prices.

If we look at the period during which the price support program has been in effect, we find that consumer prices for milk and dairy products, in real terms, have constantly declined. The time worked by the average U.S. wage earner to earn the money to buy a given quantity of dairy products has steadily decreased.

Time Worked to Earn Money to Purchase Dairy Products 1/

	1950		1981
		- minutes -	
1 lb. butter	29.6		15.0
1/2 gal. milk, in stores	15.8		8.4
1/2 lb. American Cheese	11.7		9.6

1/ Based on hourly wage rates of all manufacturing industries.

The program has provided a stability that has allowed dairy farmers to make long term commitments leading to greater efficiencies on the farm. These have resulted in reduced labor requirements and increased production per cow. In 1950, dairy farmers devoted an average of 2.36 hours of labor to the production of 100 pounds of milk. By 1981, that had declined to .30 hours. In 1950, the average dairy cow produced 5,314 pounds of milk. Last year, 1982, production per cow in the Unites States averaged 12,316 pounds of milk.

By any standard of measurement, the Dairy Price Support Program has been a success in achieving its stated purposes.

Today, there is great concern over the need to make changes in the program so as to relieve pressures in the form the rising level of dairy product purchases by the Commodity Credit Corporation and the associated high government costs.

We recognize the need to control government costs. Dairy farmers themselves, through the National Milk Producers Federation, have developed proposals which will do this in a specific, positive manner.

But care must be taken to avoid creating problems worse than the one being addressed. In addition, it would be a serious error to view the problem confronting the dairy industry and the Dairy Price Support Program as simply a dairy problem.

It is in very large measure, a reflection of the conditions that have confronted American agriculture over the past three years and more. During that period, the prospect of an economic return from dairying has been relatively better than other agricultural enterprises. The result has been that many farmers have diverted resources to milk production in an effort to improve a bleak farm income picture.

The drastic decline in net farm income over the past three years must be reversed and economic stability restored to agriculture if the measures under consideration here today are to be successful.

In addressing the problem before us, there are two avenues that can be followed. The first would provide a means to encourage individual dairy farmers to adjust production for some limited period of time so as to move production in line with demand. This would, hopefully, be accompanied by some recovery in the general level of economic activity as well as a recovery in the rest of agriculture. As these take place, the situation within the dairy industry will return to a much more normal supply-demand relationship.

The other course is to pursue a policy which would reduce the relative level of economic well-being to that of much of the rest of agriculture in recent years. This could be considered a policy of "shared misery." We have only to look at the problems flowing from the depressed conditions in agriculture to know the failure of such a policy.

ADDRESSING THE PROBLEM

There is a very real problem that must be addressed. The problem manifests itself in the form of the dairy product inventories of the Commodity Credit Corporation. At the end of March, CCC held 414.5 million pounds of butter, 757.8 million pounds of cheese and 1,181.4 million pounds of nonfat dry milk. In each instance, these inventory levels were above year earlier levels. CCC purchases continue to run ahead of last year. And milk production continues to expand. In February, milk production across the country was 2.27 percent over February 1982.

Program costs have risen substantially as milk production has expanded and CCC purchases under the price support program have risen. In Fiscal 1979, price support program costs totaled only $46 million. This increased to $1 billion in Fiscal 1980, to $1.93 billion in Fiscal 1981 and to $2.3 billion last year. Presently, USDA estimates 1983 costs at $2.4 billion before deducting receipts from the 50 cent per hundredweight assessment that will be collected from farmers beginning April 16.

A month ago, Secretary of Agriculture Block announced plans for partial implementation of the assessment program authorized under the Omnibus Budget Reconciliation Act last year. In doing so, he issued a call for further action by the Congress to develop a more effective program. At the same time, he placed a heavy burden on the dairy industry and on the Congress for failure to effectively address the problem as it has developed.

Speaking for myself and the National Milk Producers Federation, I must express deep disappointment at the attitude of the Secretary, at his failure to work in good faith with the dairy industry over the past two years, and his repeated insistence on a degree of flexibility in the price support program that, in the eyes of the industry, makes the very existence of an effective support program optional with the Secretary of Agriculture.

While the Secretary did not set forth a specific policy position in his announcement, any interpretation of the basic principals which he said an acceptable program must meet lead one to the conclusion that he has not changed his position from that presented to the Congress during consideration of the 1981 farm bill and last year's budget reconciliation process. On those occasions, the Secretary's request for total flexibility in setting the price support level was rejected out of hand. There existed no support among dairy farmers for such action. Nor does such support exist today.

The Secretary has stated that any program to deal with the current dairy problems must be unique. But in approaching a solution, he appears willing to consider only that path which he sought to follow with other commodities until the abysmal level of farm income forced at least temporary abandonment through announcement of the Payment-In-Kind Program just a few months ago. A program which has resulted in much greater than anticipated farmer participation.

Unfortunately, the Secretary appears to be dedicated to a course which serves to divide the dairy industry, to confuse the Congress, and to delay effective response to one of the most pressing problems facing agriculture.

The Secretary has repeatedly stated that he wanted to work with the industry to develop an effective solution. But as the industry has approached the Secretary, specific proposals or elements of them have been found faulty. Adjustments made to address these problems have fallen short of meeting the Secretary's demands. Finally, there has been no effective response by the Secretary to industry plans. The Secretary rejected the proposals of the Federation a year ago with the simple observation, "I don't like it." This year, the response has been even less specific.

It is time for Secretary Block to become specific. It is clear that he wants a reduction in the price support level. It is clear that he desires the flexibility to establish that price support level wherever he feels it should be to meet the need.

What level is that?

Last month he told his press conference that he did not know, that he didn't think anyone had to know right now, how low the price support level would have to go to solve the problem.

A week earlier, Assistant Secretary of Agriculture William Lesher told the Midwest Dairy Conference in Madison, Wisconsin that a price support level of $10.00 per hundredweight would have to be maintained over a two to three year period to bring about the necessary production adjustment and the desired reduction in government costs.

This was not presented as the administration position. But it takes little imagination to project the ravages such a program would have on the dairy industry and ultimately, on the American consumer.

There has to be a better way.

The dairy farmers of the country believe there is.

They have faced into the issues involved. If the proposals advanced by the dairy industry a year ago had been enacted into law, we would have been well on our way toward resolution of the problem. But looking backward will not resolve problems faced today. The question before the dairy industry, before the Congress, is "What are we going to do?"

Secretary Block has laid out several basic principles which any solution must meet. The Federation membership, in its consideration of the issue and its effort to develop recommendations has been guided by basic principles as well. The principles which the Federation has used to judge any proposal require that any plan must:

1. Bring about a reduction in milk production.
2. Enhance the demand for milk and dairy products.
3. Provide a level of farm income that will maintain the basic productive capacity needed within the industry.
4. Reduce government costs.

While many proposals have been advanced, they generally fall into three categories: (1) The present program; (2) A reduction in the price support level; (3) Provision of an incentive to the individual producer to reduce production.

Within these broad categories, it is possible to assess how well each of these three concepts addresses the four criteria set forth above. For convenience let us assign a plus to each of the concepts for each of the criteria it satisfies and a minus for each that it fails to address.

Looking at the present program, in the short term, it will do nothing to reduce production. Many farmers maintain that it will actually result in an increase in production as they utilize cheap feed to increase feeding rates or add a few cows to the milking string in an attempt to maintain the cash flow necessary to meet their commitments. This is a minus. The present program does nothing to enhance the demand for milk and dairy products--another minus. The assessment program represents a reduction in income for every dairy farmer with no opportunity to avoid the reduction through a cutback in production. Another minus. The program does very specifically address the question of government cost--a plus.

Turning to the option of a reduction in the price support level, we find that it would rate in the following manner. In the short term, its impact on production would be the same as the present program. This is verified by the experience of past reductions in the price support level. This is a minus. It could--if the reduced farm price were passed through to the consumer--result in some increase in consumption of milk and dairy products--a plus. Experience following past price support reductions, however, gives only a cautious hope that such a pass-through would take place. On the question of farm income, it would reduce income for every milk producer with no way out except out of the dairy business--another minus. With regard to government costs, it would mean a very substantial increase over the level projected for the current program. Still another minus.

Some additional discussion of the question of government costs under a price support reduction is warranted. The Congressional Budget Office, in its February 1983 publication, Reducing the Deficit: Spending and Revenue Options, discussed the question of a reduction in the dairy price support level. According to CBO, one possible approach would be to eliminate the present assessment on dairy farmers and reduce the support price level. CBO concluded, however, that to reduce price support outlays sufficiently to offset the loss of potential assessment revenues would require a cut so drastic that it could destabilize the dairy economy, causing increased consumer costs later on.

As an alternative, CBO did analyze the effects of decreasing the price support level by 50 cents per hundredweight every six months, beginning April 1, 1983 and continuing until the cumulative reductions resulted in a support price of $10.60 on April 1, 1985. Such a scheme would result in a support level next October 1 of $12.10 per hundredweight, effectively the same as the $1.00 per hundredweight reduction that some have advocated. It would mean a further reduction of 50 cents at midyear. For Fiscal 1984, CBO has estimated that such a policy would increase government outlays by $985 million over the present program. Pursuing the policy to its culmination in 1985 when a $10.60 support level would be in place, it is estimated that outlays would be $285 million over levels incurred under the present program.

Turning to an incentive type program, we find the following. Such a program would bring about an immediate response in terms of reduced production--a plus. This is not mere conjecture. A survey of dairy farmers by the nation's largest circulation dairy pulication, Hoard's Dairyman, found broad support for and willingness to participate in such a program. If coupled with an expanded program of milk and dairy product promotion as proposed by National Milk Producers Federation, it would enhance demand--another plus. It would more nearly maintain farm income for producers making a cutback in production and contributing toward resolution of the problem. This is another and a very major plus. Finally, it would very specifically address the issue of government costs--a fourth plus.

Adding it all up for the three basic concepts, we have the following:

The present program--one plus, three minuses.

A price support reduction--one plus, three minuses. In this case, the one plus is tenative and depends upon the reduced farm price being passed through to the consumer--a situation that has not always existed in the past.

An incentive program--four pluses. It must be recognized that the plus accorded an incentive program with regard to demand enhancement is conditioned on implementation of a program of expanded product promotion.

THE DAIRY COMPLIANCE PROGRAM

The choice of the basic program concept seems clear. It was for nearly 80 percent of the members of the Board of Directors of the National Milk Producers Federation last month. Meeting on February 10, they approved a program aimed at providing a strong incentive to reduce production and a companion program of product promotion to expand demand for milk and dairy products.

Attached to my statement is a concept paper outlining the basic elements of the Federation's Dairy Compliance Program and the National Dairy Promotion Program. This includes estimates of the impact the program would have on the level of milk production, Commodity Credit Corporation removals and government costs. Also included are illustrations of the effect the program would have on an individual dairy farmers under different circumstances with regard to program participation as well as a section-by-section analysis of the Dairy Compliance Program.

The Dairy Compliance Program rests on several basic points. It provides a strong incentive--in the form of a $10 per hundredweight payment--for a reduction in marketings below the 1981-82 level. A disincentive to continued expansion and overproduction is provided in the form of a $12.00 per hundredweight lower price for excess milk. The fact that producers reducing marketings to or below their 1981-82 marketing history would avoid application of this lowered price to any portion of their marketings actually increases the incentive nature of the program. Finally, the program is completely voluntary. The individual dairy farmer remains free to determine whether participation or nonparticipation best fits the situation on the farm.

It is a two-tier price system that places a portion of the cost burden of the Dairy Price Support Program on the dairy farmers. But that burden would be borne by those not contributing to a reduction of the problem.

As the first, or basic price level, the present $13.10 price support level would be maintained through September 30, 1985. Under this, a farmer would receive the regular market price for all of his milk if he maintained marketings at or below the level of his marketing history. If a producer's marketings exceeded the marketing history, the regular market price would be paid on either the portion of marketings equal to the marketing history or the portion represented by nonsurplus production.

The second tier price level, the Dairy Compliance Price, would be $12.00 per hundredweight less than the normal market price. This is provided as a strong disincentive to continue expansion of production. This reduction in price would be applied to a producer's marketings in two different ways, depending on how much he exceeds the marketing history level. For the farmer whose marketings are in excess of marketing history by less than the national surplus percentage, the Dairy Compliance Price would apply to any marketings over the history level. For example, suppose a farmer has marketing equal to 105 percent of his history and the national surplus percentage is 7.6 percent. In this case, the Compliance Price would apply to five percent of the milk marketed by the farmer.

For the producer who has increased marketings by more than the national surplus percentage, the reduced price would apply to that portion of his milk represented by the surplus percentage. Again, taking a situation where there is a 7.6 percent national surplus, a famer marketing milk equal to 120 percent of his marketing history would receive the Dairy Compliance Price on 7.6 percent of his total marketings.

There is one restraint placed on the application of the Dairy Compliance Price. It cannot operate so as to reduce the blend price received by farmers not cutting their marketings by more than $1.00 per hundredweight.

This program is not a base plan or quota system in the sense that such programs might limit access of a producer to the market. The program is entirely voluntary and in no way restricts the ability of the individual dairy farmer to make necessary decisions affecting the management of his farm. It does not restrict entry of new producers.

The marketing history for the individual producer would be established as the average of marketings during the 1981 and 1982 marketing years which correspond to Fiscal Years 1981 and 1982.

The use of the two year period for establishment of marketing history alleviates some problems individual farmers might encounter due to reduced production in a single year arising from disease or other problems. For a producer who started marketing milk sometime during the history period marketing history would be established by dividing total marketings during the period by the number of days for which milk was marketed and multiplying the result by 365 to obtain an annual marketing level. Adjustments could be made in the history established in this manner to account for normal seasonal variations in marketings, but such an adjustment could not result in an increase in the history itself.

A producer who began marketing milk after September 30, 1982, the end of the marketing history period would have no marketing history. In this case, a farmer would be subject to the Dairy Compliance Price on the portion of his marketings represented by the national surplus percentage. Some might argue that this is discriminatory toward new producers, however, the new producer is in exactly the same status as the dairy farmer who has been in business for years and chooses not to reduce production. It can be argued that equitable treatment for existing producers requires such treatment. There is no allowance for existing producers to build or otherwise acquire marketing history. Allowing new producers to establish a marketing history in some manner would discriminate against established operations.

The administration and some in the Congress have expressed concern that marketing bases or quotas will acquire value. This is cited as one of the undesirable features of this program. Two things prevent the marketing history established under this program from acquiring value. In the first place, it is not transferrable. Secondly, the program is short term, only two years, in duration.

The marketing history used under the Dairy Compliance Program would in no way interfere with or replace seasonal base plans or other mechanisms used as part of Federal Milk Marketing Orders and by some cooperatives to encourage producers to tailor marketings to the needs of the market.

The marketing history would be established for each farmer through the County ASCS Committee. The dairy farmer would present proof of his marketings during the 1981 and 1982 marketing years to the County Committee which would certify that as the marketing history for the that particular producer. This certification would then be deposited by the farmer with the cooperative or other agency that pays the farmer for his milk.

A major operating element of the Dairy Compliance Program is the National Surplus Percentage. The Secretary of Agriculture would make this determination based on his estimate of the level of milk production and the level of Commodity Credit Corporation removals in the absence of the Dairy Compliance Program. In determining this percentage, 2.5 billion pounds milk equivalent would be subtracted from estimated CCC removals before the calculation is made. This 2.5 billion pounds of milk represents the normal utilization of dairy products in government assisted food programs in this country. Use in these programs has been higher the past two years, due largely to efforts to utilize surplus dairy stocks coupled with increased food assistance needs due to the recession in the general economy.

Farmers reducing marketings to less than their marketing history would qualify for incentive payments of $10.00 per hundredweight. A producer could receive payment for a reduction of up to 30 percent of his marketing history. For a farmer who leaves dairying entirely, a payment equal to 30 percent of his history would be made for one year.

Under most circumstances, the dairy farmer would apply for the incentive payment through his county ASCS office. The payments would be made on a quarterly basis to assist in maintaining a more uniform cash flow for the farmer during the year. The farmer would simply present proof of his marketings during the quarter to the County ASCS Committee, certify that this did, indeed, represent his marketings and the payment would be made.

An option is provided in the making of incentive payments that would allow those making payment to farmers for their milk to include the incentive payments as part of the farmer's milk check each month. Such a course would be followed only at the option of the individual dairy cooperative or milk plant but could be most helpful to those farmers cutting back production in maintaining the flow of funds necessary to meet their commitments.

I have gone into much detail in discussing the program's operations. I feel this is necessary to provide a full understanding of the effect of the program. It should not be taken as a measure of the program's complexity. In actual operation, the program would be quite simple and straightforward.

From the standpoint of the farmer planning to reduce production or seeking reduced application of the Dairy Compliance Price to his marketings, the following actions are required:

1. Secure a certification of marketing history from the County ASCS Committee and deposit that certification with the person or firm buying his milk.
2. Apply quarterly for the incentive payment. This would apply only to those farmers cutting marketings below the marketing history. If the cooperative the farmer belongs to or the plant to which he sells milk chose to make the payments as part of its operations, this step would be eliminated.

The farmer who chooses not to reduce production need take no action at all.

For those making payment to farmers for milk, certain responsibilities are assigned under the program.

1. Based on the marketing history of the individual producer, apply the Dairy Compliance Price to the farmer's marketings on a monthly basis.
2. Remit the funds represented by the difference between the normal market price for milk and the Dairy Compliance Price to the CCC.
3. Should the cooperative or plant choose to do so, they could undertake to make the incentive payments to the farmer.

For the government, there would be certain new responsibilities for specific agencies.

1. The County ASCS Committees would be responsible for certifying farmers' marketing histories.
2. The County ASCS Committees would have a basic responsibility for issuing incentive payments to pariticipating farmers.
3. The Secretary would have the responsibility of determining the national surplus percentage.

Secretary Block has said that he wants a program that is simple and easy to administer. What I have outlined is such a program. Frankly, it is much simpler than some programs announced by the Department of Agriculture recently.

The Dairy Compliance Program has much to recommend it:

+ It will work quickly and directly to reduce milk production.
+ It will serve to maintain a reasonable level of farm income for dairy farmers working toward resolution of the present problem by reducing marketings.
+ It will restrain government costs.
+ It will, in concert with the expanded program of dairy product promotion, serve to enhance demand for milk and dairy products.

DAIRY PRODUCT PROMOTION

Dairy farmers have had substantial experience in the operation of dairy product promotion programs. Such efforts have demonstrated positive effects in maintaining and expanding consumption of milk and dairy products. At the present time, however, there is an urgent need to increase these efforts. The concept set forth in the National Dairy Promotion Program will meet this need.

Much has been said of the problems being experienced with the growing cost of the Dairy Price Support Program. Most of this discussion has centered on the fact that milk production has expanded in the past few years, resulting in increased Commodity Credit Corporation dairy product purchases. There is another side to that issue. This involves the decline in milk consumption that has taken place in recent years. According to reports of the U.S. Department of Agriculture, milk consumption per capita stabilized and showed some increase during the late 1970's following a substantial decline during the 1950's and 1960's. The experience of the 1970's was, we feel, the result of increased and more effective product promotion programs.

But during the past few years, we have again experienced a decline in per capita consumption. From 548 pounds milk equivalent (fat-solids basis) per capita consumption in 1979, consumption fell to 544 pounds in 1980 and to 541 in 1981. This represents a total decrease in milk consumption of almost two billion pounds from 1979 per capita levels and four billion pounds on the basis of the 558 pounds consumed per capita in 1972.

Milk Consumption Per Capita, U.S.
Milk equivalent, Fat-solids basis

Year	-pounds-
1969	569
1970	561
1971	556
1972	558
1973	551
1974	539
1975	540
1976	540
1977	542
1978	545
1979	548
1980	544
1981	541

Source: DAIRY, OUTLOOK AND SITUATION,
USDA, ERS, DS-390, September, 1982

The decline in consumption we have witnessed encompasses a wide range of dairy products and fluid milk. The increase in consumption of manufactured products in recent years has been a major factor in maintaining and increasing milk consumption. This is particularly true of cheese. In 1970, per capita cheese consumption was 11.5 pounds. By 1978, this had increased to 17.2 pounds. There was a slowing of the pattern of expanding consumption in 1979, however, growth resumed in 1980, in large part due to the specially targeted product promotion programs conducted by the dairy industry. This successful effort was repeated in 1981 with equally impressive results.

When we look at the food marketing picture today, we witness a highly sophisticated industry where thousands of products compete for the attention and the budget of the consumer. Hundreds of millions of dollars are spent on the promotion of the products that stock the shelves of the nation's food stores. For too long, we in agriculture have assumed that because we produce a product that is pure and wholesome and one which provides an unmatched nutritional value that it has an automatic acceptance by the consumer. We have learned, we are continuing to learn, that this is not the case.

The dairy industry is witnessing the development of a new generation of imitation dairy products that compete for the consumer dollar. Many of these products are presented as "nutritionally equivalent" to genuine dairy products, a claim not supported by scientific fact but allowed by mandate of the Food and Drug Administration.

It is estimated that imitation cheese products represent almost five percent of the total cheese market in the United States today. The primary feedstock for these products is casein. I realize that neither the U.S. International Trade Commission nor the administration feels that such inroads into a major market represents material interference, but for the U.S. dairy farmer it is most significant.

It is for the purpose of addressing these issues that dairy farmers have joined together in support of the National Dairy Promotion Program. The legislation before the Committee would authorize the development of such a national program aimed at promoting expanded use of milk and dairy products and assisting related marketing and nutritional research as well as nutrition education efforts. There is solid evidence that such efforts are successful. Such an effort is an essential part of any overall industry program to address the problems currently confronting the dairy industry.

NATIONAL DAIRY PROMOTION PROGRAM

The legislation before the Committee is similar in most respects to that approved for other commodities in recent and essentially identical to the programs supported by dairy farmers in several states. It authorizes the development of a national producer-funded program for the promotion of milk and dairy products as well as related marketing and nutritional research and nutrition education efforts. The development of the program would be under the direction of the Secretary of Agriculture and it would initially be placed in operation at his direction.

The program itself would be directed by a Board of Directors comprised of dairy farmers, however, budgets for program operations and actual project plans would be subject to review and approval by the Secretary.

There are a number of areas in which this proposed program differs from those approved for other commodities.

The program would initially be established at the direction of the Secretary of Agriculture. The Secretary would issue the basic order establishing the program after receiving public comment on a proposal submitted to him by interested parties. This may appear to be deliberately bypassing the process of producer referendum that is common in placing such programs into effect. There is sound reason for doing so. The initial intent of the program is to assist as rapidly and directly as possible in reducing government costs under the Dairy Price Support Program through expansion of consumption of milk and dairy products. Each additional pound of cheese consumed means 10 pounds less milk available for sale to the Commodity Credit Corporation under the price support program.

The lengthy process of national hearings and referendum involved in initially establishing such a program would mean substantial delays in implementing these efforts. These delays would be costly from the standpoint of both the government and the dairy farmer. We are dealing, essentially, with an emergency situation that requires emergency actions.

The conduct of the program in this manner is meant as a short term condition. In order for the program to continue beyond December 31, 1985, it would have to be approved by a majority of the dairy farmers voting in a referendum held during

August or September 1985. Thereafter, any program changes would have to be approved in a similar producer referendum and a representative group of 10 percent or more of the producers covered under the program would be able to petition the Secretary for a referendum to determine whether farmers desired to continue the program at any time after October 1, 1985.

The legislation calls for a mandatory assessment on all milk marketed of 15 cents per hundredweight. The full support nature of the program is essential to its success. The dairy industry has had considerable experience with voluntary programs or programs under which individual producers can request refunds of contributions. At the same time, considerable experience has been gained in the use of mandatory or full support programs of this type. Of the two, the effectiveness of the full support program is so much superior that a comparison can hardly be made.

The funds provided under such a program are used to further market expansion efforts for all dairy farmers. This point is critical. A major weakness of voluntary programs has been that those participating carry the burden for the entire industry. All farmers benefit to an equal degree from such efforts, therefore, each should be expected to share in program costs.

Provision is made to allow dairy farmers already making contributions to qualified programs aimed at promoting the use of milk and dairy products generally to be credited for up to ten cents of their contributions to such programs. This assures that the national program would not supersede existing successful state, regional and cooperative programs. To a great degree, the national effort would be complimentary of these programs as it would permit specific targeting of promotion opportunities when local funds may not be adequate to meet a need. It would also allow reinforcement of these existing efforts with research measuring the program's effectiveness and studies regarding the nutritional value of milk and dairy products.

Even with the 10 cent credit, for many dairy farmers their participation in this program will be in addition to substantial contributions they are already making to such operations. In my own case, I presently participate in state, regional and national programs.

As noted earlier, there is precedent for a mandatory research and promotion program in the dairy industry. The table attached to my testimony details a number of major dairy states that have such a program in effect at the present time. The most recently approved program, that in Wisconsin, was approved by more than 76 percent of the dairy farmers in the state in a referendum ending just six weeks ago.

In addition to the state programs, many of the cooperative marketing associations maintain their own advertising and promotion efforts as well as provide active support to nutrition education programs. In many of these instances, a portion of the funds are used for cooperative brand advertising with the balance devoted to generic promotion. The generic promotion efforts of cooperatives would be recognized as qualifying under the crediting provisions of the proposed legislation.

In total, over sixty percent of the milk supply of the nation is included under full support promotion efforts either under a state or cooperative program.

It has been suggested that the referendum provisions of the measure be amended to remove the authority for cooperative marketing associations to vote on behalf of their members. Frankly, the provisions now in the bill will assure broader participation in the producer referendum and more fully reflect the desires and needs of dairy farmers.

Each individual dairy farmer would be assured the right to cast his ballot in any referendum. If a cooperative marketing association chose to exercise the option to vote on behalf of its membership, it would be required to inform the membership of how the vote was cast and the reasons for the action. At the same time, information would be provided as to how a member disagreeing with the cooperative's action could cast an individual ballot.

This assures a broad participation by dairy farmers. It assures them that they will have complete information on the program before making an individual decision. Finally, it guarantees them the opportunity to exercise their vote as an individual if they should so desire.

There is another point that should be clearly understood in this regard. Dairy cooperative marketing associations are owned and operated by dairy farmers. While professional management is employed to carry out the operations of the cooperative, the policy decisions are made by dairy farmers themselves through member-elected Boards of Directors. These directors act on behalf of their fellow members in determining policy. As one who has been active in his own cooperative throughout my career as a dairy farmer, I know that one of the prime requirements within such an organization is action that is in keeping with the desires of the membership.

Because there are already substantial milk promotion programs in operation throughout the nation, the opportunity exists to expand these efforts with little or no administrative or overhead costs. The National Dairy Promotion Board directing the program would be able to receive proposals from existing agencies, review them and, if accepted provide funds for such operations.

This would mean, in the fullest sense, that this program would operate on a complimentary basis with existing promotion efforts. As clearly stated in the legislation, it is not intended to replace or supplant existing programs. These are effective, they must be continued. What we are seeking here is a means of making existing programs more complete, more effective and to do a more complete job on a national basis.

ANTICIPATED IMPACT OF NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

What benefit can dairy farmers expect from funds committed to a program of promotion of manufactured dairy products?

Several years ago, the Economic Research Service of the U.S. Department of Agriculture conducted extensive research into the impact of promotion programs aimed specifically at butter and cheese. The findings of these studies were published in BUTTER AND CHEESE, Sales Changes Associated With Three Levels of Promotion, Agricultural Economic Report No. 322, January 1976. These studies indicated substantial potential returns from such programs. Quoting from the report's summary:

> "A 9-cent per capita investment in promoting butter in controlled market tests resulted in a sales gain of about 4.5 percent over sales with no promotion. The study period was May 1972-73. Sales dropped, however, by 4.5 percent when the investment level was 6 cents per capita and by 3.5 percent at a 3-cent promotion level. The negative results were apparently due to counter-promotions for oleomargarine in the form of advertisements that offered cents-off coupons on oleomargarine."
>
> "For cheese, the 3-cent-per-capita promotion level did not increase sales significantly. But gains of about 15 percent occurred at promotion levels of 6 and 9 cents. Moreover, for each 1-percent change in the number of trade advertisements for cheese (both retailer and manufacturer), cheese sales changed one-half of 1 percent in the same direction."

Overall, it was concluded that a $12 million expenditure nationally would have increased cheese consumption 244 million pounds annually or about 2.4 billion pounds milk equivalent. A national promotion program for butter costing $18 million would raise butter sales by 450 million pounds milk equivalent. The estimates for butter assumes there would be counterpromotion of oleomargarine as occurred in USDA's test markets.

Updating the results of the USDA work to reflect increases in advertising costs, it is estimated that it would cost $72 million today to operate the cheese and butter promotion programs described above. Such programs would increase consumption, however, by almost 2.9 billion pounds milk equivalent. If the alternative market for this product was the CCC, this represents a savings of $460 million in reduced government purchases at the present $13.10 support level.

The USDA study was based only on the impact of promotion efforts on sales through supermarkets. It did not measure or estimate the potential increase through other outlets. Therefore, it could be expected that the impact would be somewhat greater than presented.

The results of the USDA investigation are borne out by the experience of the "Slice of Life" cheese promotion campaigns conducted in 1980 and 1981 by the United Dairy Industry Association. These promotion efforts were conducted during September, October and November each of the two past years. The cumulative effect of the effort was an increase in cheese purchases of 188 million pounds during the two years.

The initial effort in 1980 brought about an 86.7 million pound increase in purchases over the previous year. When repeated the following year, another 101.6 million pound gain was recorded.

As detailed for the Committee during hearings on similar legislation a year ago, research by Dr. Stanley Thompson at Michigan State University has indicated that the potential return to dairy farmers for an investment in generic promotion of fluid milk returns $2.20 for every dollar committed to such programs. Analysis of this work and similar studies indicate there exists considerable potential for expansion of effort in this area if adequate funds are available for such programs.

While precise estimates are not available, it is anticipated that the program envisioned by this legislation could provide an additional $120 million to be used for dairy product promotion work. This would be new money provided by dairy farmers in addition to that they are already committing to these efforts. If, as some have estimated, this could have the effect of expanding the demand for milk and dairy products by some six billion pounds annually over a period of time, it would have significant effects on dairy farmer income. It would also mean substantial government savinngs if the alternative market for this milk is the Commodity Credit Corporation through the Dairy Price Support Program.

This is why I am so interested in and concerned with this legislation. It can mean money in my pocket as a dairyman. It can also assist in relieving the current pressures on the government program that has provided a basic level of stability and price assurance to my industry. I view this, quite frankly, as a logical and essential companion to the Dairy Compliance Program.

Together, these programs will work to being about a restoration of the supply-demand balance within the dairy industry and serve to maintain strong markets for dairy farmers. In the end, that is the basic essential needed to assure a continued supply of milk to meet the needs of the nation.

Last year dairy farmers, working through the National Milk Producers Federation, presented recommendations to the Committee very similar to those of the Dairy Compliance Program and the National Dairy Promotion Program. Those policies would have addressed the need to reduce milk production and to increase demand for dairy products. Unfortunately, they were not adopted by the Committee. If they had, we would be well on the way toward resolving a problem that has been before the Congress for three years.

Time is running out. The longer we delay effectively addressing the question, the more difficult the final solution will be. It is time to act. The proposals I have presented have the support of the vast majority of dairy farmers across the nation. They were developed by dairy farmers.

Attachment #1

NATIONAL MILK PRODUCERS FEDERATION
April 13, 1983

Dairy Compliance Program

As approved by the Federation's Board of Directors, the program is designed to bring milk supplies more nearly into line with commercial demand, to maintain farm prices for dairy farmers reducing production, to reduce government costs under the Dairy Price Support Program from present levels, and to enhance demand for milk and dairy products through an accelerated National Dairy Promotion Program.

The key elements of the Dairy Compliance Program which is designed to operate through September 30, 1985 include:

1. Maintenance of the present $13.10 price support.

2. Prior to the beginning of the marketing year, the Secretary of Agriculture will estimate the level of marketings, domestic consumption and Commodity Credit Corporation removals anticipated during the year. As part of domestic consumption, 2.5 billion pounds of milk is to be included as the quantity necessary to meet government program demands.

   Based on these estimates, the Secretary will determine the national surplus percentage for the year.

3. Achievement of production adjustment would be accomplished through a two-tier price system and payments for diversion below the level of marketings during the marketing history period which is to be the average of marketings during the 1980-81 and 1981-82 marketing years.

   Producers delivering milk during the entire marketing history period will use their actual marketings as the basis for performance within the program. For producers with less than the full 24 months of marketing history during the period, a marketing history will be developed by determining the average daily marketings for the days actually marketed and multiplying that result by 365 to determine an annual marketing level.

   For producers who began marketing milk after September 30, 1982, no base would be assigned nor would there be opportunity for base to be built or earned. This would give the new producer the same status with regard to the program as the existing producer who chooses not to participate in reducing milk production.

   No transfer of marketing history is allowed.

4. The two-tier price operation would be applied in the following manner:

   a. The $13.10 basic price per hundredweight would be paid for marketings up to the level deemed necessary to meet commercial demand plus an amount determined necessary to meet government program needs.

   b. A lower price, the Dairy Compliance Price, would be paid on the percentage of marketings equal to the national surplus percentage for producers whose marketings exceed those of the marketing history period by more than that percentage. For producers whose marketings are in excess of the marketing history period level by less than the national surplus percentage, the compliance price would apply only to the marketings in excess of the history period level. There would be no application of the Dairy Compliance Price to producers maintaining marketings at or below the marketing history period level.

      The Dairy Compliance Price will represent a reduction in the blend of the two price levels of no more than $1.00 per hundredweight for all milk marketed by the producer.

5. The difference between the $13.10 basic price level and the Dairy Compliance Price will be paid into the Dairy Stabilization Settlement Fund to be maintained by the Commodity Credit Corporation. These funds will be used to make diversion payments to producers who reduce marketings below their marketing history period level and to reduce costs of the Dairy Price Support Program.

   To the extent possible, those making payment to dairy farmers for milk will be allowed to make payments for diversion of marketings on a current basis (monthly if possible) utilizing funds available from the payment of the Dairy Compliance price for marketings in excess of historical marketings. Such payments to those reducing marketings would be preliminary with a final reconciliation to be made during the last month of the fiscal year. This authority is not to be construed as allowing persons paying dairy farmers to reblend payments for diversion or the impact of the Dairy Compliance Price equally among all producers. In operating such a pool among producers, persons making payment to farmers would be fully accountable to the Commodity Credit Corporation for the funds and any balance from producer settlements would be remitted to the Dairy Stabilization Settlement Fund on a monthly basis.

6. Producers would obtain a certification of their marketing history from the Agricultural Stabilization and Conservation Service and present it to the person from whom they receive payment for milk for reduced application of the Dairy Compliance Price.

7. Producers who reduce marketings below marketing history period levels will be eligible for diversion payments from the Dairy Stabilization Settlement Fund. Producers will be eligible for payment by proving that a reduction has been made and that it is not offset by transfer of interest in the operation or by other means of evasion.

   The rate of payment will be $10 per hundredweight for reductions below the level of marketings during the marketing history period. Payments will be made for reductions of up to a maximum of 30 percent of a producer's marketing history. For producers who ceased dairying entirely, diversion payments could be made at the 30 percent rate for one year.

Attachment #2

DAIRY COMPLIANCE PROGRAM

Milk Marketings, Utilization and CCC Purchases

Item	Unit	1983-84
Support Price, 3.67% Bf.	$/cwt.	13.10
Percent of parity	pct.	64.9
Dairy Compliance Price	$/cwt.	1.10
National Surplus Percentage (NSP)	pct.	7.6 1/
Milk Production	bil. lbs.	129.4
Farm Use	bil. lbs.	2.6
Marketings	bil. lbs.	126.8 2/
Beginning Stocks	bil. lbs.	5.0
Imports	bil. lbs..	2.4
Commercial Supply	bil. lbs.	134.2
Commercial Use	bil. lbs.	127.2 3/
Ending Stocks	bil. lbs.	5.0
Total Utilization	bil. lbs.	132.2
CCC Purchases	bil. lbs.	2.0
CCC Purchase Costs	mil. dol.	551 4/
Dairy Stabilization Settlement Fund (DSSF)	mil. dol.	644 5/
Paid Diversions	mil. dol.	860 6/
CCC Cost for Paid Diversions	mil. dol.	216
Net CCC Program Cost	mil. dol.	767

1/ National Surplus Percentage - $\frac{12.8B - 2.5B}{136.1B}$ = 7.6%

2/ Estimate of Marketings:

Producers	x	Marketing History	x	Marketing as % of history	=	1984 Marketings
35%	x	130.7B	x	80%	=	36.6B
15%	x	130.7B	x	100%	=	19.6B
50%	x	130.7B	x	108%	=	70.6B
100%						126.8B

3/ Commercial use expands 1.5B lbs. (1.2%) due to advertising and promotion

4/ Purchase cost at $15.05 per cwt., M.E. plus $250M for extra NDM purchases.

5/ Estimate of DSSF:

NSP	x	Marketing	x	Price diff.	=	DSSF
7.6%	x	70.6B	x	$12.00/cwt.	=	$644M

6/ Estimate of Paid Diversions

	Producers Leaving		
Total Diverted Marketings	2.0% producers retired dairying (.02 x 130.7B)	50% milk not marketed (.50 x 2.6B)	Payment on 30% .3 x 2.6B
9.1B	2.6B	1.3B	.8B

Diverted marketings by continuing producers,	9.1B - 1.3B =	7.8B
Diverted marketings by retiring producers,		.8B
Diverted marketings eligible for payment		8.6B
Diversion Payment per cwt.		x $ 10.00/cwt.
Total Paid Diversion		$860M

Attachment #3

DAIRY COMPLIANCE PROGRAM
Impact on Individual Producer

	Producer A	Producer B	Producer C	Producer D	Producer E
			---hundredweight---		
(1) Estimated 1984 marketings	5,500	6,000	6,450	9,180	15,000
(2) Actual marketings					
1981	6,000	6,000	6,000	6,000	6,000
1982	6,120	6,000	6,300	9,000	9,000
(3) History Marketings	6,060	6,000	6,150	7,500	7,500
(4) Marketings minus History	(560)	0	300	1,680	7,500
(5) Limit on marketings to which non-compliance price applies (7.6% x line 1)	418	456	490	698	1,140
(6) Marketings receiving non-compliance price (lower of line 4 or 5)	--	0	300	698	1,140
(7) Marketings receiving paid diversion (line 4 if negative)	560	0	0	0	0
(8) Marketings receiving market price (line 1-6)	5,500	6,000	6,150	8,482	13,860
			---dollars---		
(9) Cash receipts					
(line 8 x $13.10)	$72,050	$78,600	$80,565	$111,114	$181,566
(line 6 x $ 1.10)	--	--	330	768	1,254
(line 7 x $10.00)	5,600	--	--	--	--
Total	$77,650	$78,600	$80,895	$111,882	$182,820
(10) Price difference remitted to CCC (line 6 x $12.00)	0	0	$ 3,600	$ 8,376	$ 13,680
(11) Returns per hundredweight (line 9 - 1)	$ 14.12	$ 13.10	$ 12.54	$ 12.19	$ 12.19

Attachment #4

SECTION-BY-SECTION EXPLANATION OF THE DAIRY COMPLIANCE PROGRAM

(1) (A) Establishes the minimum dairy price support level for fiscal years 1984 and 1985 at $13.10 per hundredweight for milk testing 3.67 milkfat.

(B) Provides that the price support program shall be carried out through the purchase of milk and milk products.

(C) Requires the Secretary to provide for application of the Dairy Compliance Price to marketings of producers whose marketings exceed those of the marketing history period or for whom no marketing history is established. The Dairy Compliance Price shall be $12.00 per hundredweight less than the price otherwise received by farmers for milk. The Dairy Compliance Price shall be increased if such increase is necessary to avoid a reduction in the blend price of milk received by producers not reducing marketings of more than $1.00 per hundredweight.

The Secretary is also directed to adjust the Dairy Compliance Price during the fiscal year if such adjustment is necessary to avoid accumulation of excess funds in the Dairy Stabilization Settlement Fund.

The purpose of the Dairy Compliance Price is to encourage the adjustment of milk production to levels consistent with the national demand for milk and dairy products and to provide for fair and equitable treatment among producers of milk.

(D) Requires the Secretary to determine and announce the National surplus percentage prior to October 1 for any fiscal year for which the Dairy Compliance Program will be in effect. This is determined by the following formula:

$$\frac{\text{Estimated CCC removals - 2.5 billion pounds milk equivalent}}{\text{Estimated milk marketings for the year}}$$

The estimates of Commodity Credit Corporation removals and marketings are to be based on conditions which would exist in the absence of the Dairy Compliance Program. The 2.5 billion pound reduction in CCC removals represents the quantity of dairy products needed to meet the ongoing needs of government nutrition assistance programs.

Provision is made to increase the 2.5 billion pound deduction made in CCC removals in determining the National Surplus Percentage in the event that dairy product imports are increased through action under Section 22 of the Agricultural Adjustment Act.

(E) Requires persons making payment to farmers for milk to apply the Dairy Compliance Price to farmers' marketings and to remit the difference between the market price and the Dairy Compliance Price (the difference being equal to $12.00 per hundredweight unless adjustment has been made by the Secretary) to the Commodity Credit Corporation. Producers marketing milk of their own production directly to consumers shall remit the difference directly to CCC. These remissions will be made in a manner prescribed by the Secretary.

In practice, the existing pattern of pay prices for milk would continue and the reduced price would be applied to those pay prices. For example, the price for milk under a marketing order in Florida might be $16.50. For a farmer not participating in the program, his price would be $16.50 on 92.4 percent of his milk (with a 7.6 percent national surplus percentage) and $4.50 on 7.6 percent. A farmer in Minnesota receiving $12.80 per hundredweight and not participating by reducing production, would receive $17.80 on 92.4 percent of his marketings and $.80 on 7.6 percent. The reduction in the weighted average price received by both farmers would be $.91 hundredweight.

(F) Funds remitted to the CCC shall be credited to the Dairy Stabilization Settlement Fund. Monies deposited in the Fund shall be used to make payments to farmers reducing marketings of milk under terms of the Act and, to the extent that available monies are not used for that purpose, to reduce the CCC costs of removing dairy products from the market.

Provision is made to use funds otherwise available to CCC for making payment to farmers reducing marketings in the event that money available in the Fund are inadequate for that purpose.

It is made clear that funds remitted to the CCC under this subparagraph are to be included in payments to farmers for milk under the minimum pricing provisions of Federal Milk Marketing Orders.

(2) (A) Producers seeking reduced application of the Dairy Compliance Price or wishing to receive payments for reducing marketings must establish their marketing history. The marketing history period shall be fiscal years 1981 and 1982.

Under program operations, applications of the Dairy Compliance Price shall be related to the actual marketings of a producer on a monthly basis.

Provision is made for producers who did not market milk during the entire marketing history period. For these producers, an annual marketing record will be established by dividing their total marketings during the marketing history period by the number of days for which milk was marketed and multiplying that result by 365. In providing for the monthly application of the Dairy Compliance Program to a marketing history determined in this manner, allowance will be made for normal seasonal marketing variations but this cannot result in an increase in the marketing history.

No marketing history will be assigned producers who began marketing milk after September 30, 1982, the end of the marketing history period nor would there be opportunity for producers with marketing history to earn or build additional marketing history. This gives the new producer the same status under the program as the existing producer who chooses not to participate in reducing milk production.

No transfer of marketing history established under this program is allowed.

(B) Producers must obtain certification of their marketing history through their county offices of the Agricultural Stabilization and Conservation Service. Prior to issuing a certification, the County Committee will determine that the evidence of marketings presented by the producer is a true and accurate representation of marketings during the marketing history period.

Upon receipt of the certification, the producer shall deposit it with the person making payment for milk delivered.

(C) For producers whose marketings are equal to or less than those during the marketing history period, there will be no application of the Dairy Compliance Price.

(D) For producers whose marketings exceed those during the marketing history period by less than the National Surplus Percentage, the Dairy Compliance Price will apply to marketings in excess of the marketing history level.

(E) For producers whose marketings exceed the National Surplus Percentage by an amount equal to or greater than that Percentage and for producers for whom no marketing history has been established, the Dairy Compliance Price will apply to that portion of their marketings represented by the National Surplus Percentage.

(F) Persons making payment to producers for milk will apply the Dairy Compliance Price to producer marketings on a monthly basis.

Provision is made for a year-end reconciliation in the event that application of the Dairy Compliance Price and eligibility for payments to a producer for reducing marketings make it necessary to balance a producer's participation in the program for the entire year. This reconciliation is to be accomplished during the October through December quarter following the end of the fiscal year.

(3) (A) Producers reducing marketings below the level established during the marketing history period will be eligible for payment for such reductions. The rate of payment is $10.00 per hundredweight of reduction.

(B) Eligibility for payments for reduction in marketing will be determined on the basis of the certification of the producer's marketing history.

(C) Application for payment will be made through County ASCS offices at the end of each quarter. Payment will be made to any producer establishing that marketings during the quarter were reduced from the level of the corresponding period during the marketing history period. Before payment is approved, evidence will be required that the claimed reduction in marketings has, in fact, taken place. This will include a certification by the producer that the claimed reduction is a net decrease in marketings and has not been offset by expansion of production in other facilities in which the producer has an interest, by transfer of partial interest in the production facility or by other scheme or device.

Payments made following the first three quarters of the fiscal year will be preliminary settlements. A final settlement will be made at the end of the year. The final settlement will be based on marketings for the entire year. If it is determined that preliminary settlements have resulted in overpayment to the producer, such overpayment will be recovered.

Provision is made to allow persons making payment to farmers for milk to make payments to those farmers reducing marketings. Such payments would be based on the certification of the producer's marketing history and would be made on a current (monthly, if possible) basis.

In making such payments, funds collected from other producers not reducing marketings would be used. To the extent that available funds are not adequate for this purpose, an advance would be made from the Dairy Stabiliation Settlement Fund or from funds otherwise available to the Commodity Credit Corporation.

Those making use of this authority would reconcile the accounts of individual producers on a quarterly basis with a final reconciliation based on the annual marketings of the producer to be made at the time final payment is made to the producer for milk delivered during the fiscal year. If, based on marketings for the entire year, it is determined that an overpayment has been made, that overpayment will be recovered by the person making payment to the producer for his milk.

Those making use of this authority will be fully accountable to the Commodity Credit Corporation for the application of funds in a form and manner prescribed by the Secretary.

(E) Payment will be made to producers for reductions in marketings of up to 30 percent of their marketing history.

Producers who cease marketing entirely will be eligible for payment on 30 percent of their marketing history. Such eligibility will cease after one year.

(4) Provision is made for adjustment of payments to or the application of the Dairy Compliance Price if it is found that there is a marked deviation in the composition of the milk marketed by the producer from that marketed during the marketing history period and it is determined that the deviation results from an attempt to circumvent the intent of the program.

(5) Authorizes the Secretary to make such investigations as necessary for the effective administration of the Act.

(6) (A) The U.S. District Courts are vested with jurisdiction for enforcement. Any civil action brought under this authority shall be referred to the Attorney General for action, however the Secretary has authority to seek to resolve minor violations without reference to the Attorney General.

(B) Any person willfully violating the provisions of the Act or regulations issued by the Secretary shall be liable to a penalty of not more than $1,000 for each violation.

(C) The remedies provided in (A) and (B) are in addition to other remedies provided by law or in equity.

(7) Operations under this subsection shall be considered a program or operation of USDA for purposes of Section 22 of the Agricultural Adjustment Act.

Attachment #5

Basic Concept of the National Dairy Promotion Program

April 13, 1983

1. The program would be financed by a uniform checkoff of 15 cents per hundredweight on all milk marketed. The collection would be made by those who pay farmers for their milk with the funds transmitted to the Dairy Promotion Board. A credit up to 10 cents would be available to farmers participating in qualified cooperative, state or regional programs.

2. The National Dairy Promotion Program is not designed to supplant other existing advertising and promotion efforts operated through state, regional and national organizations. It would, in fact, reinforce and strengthen such efforts.

3. The program would be administered by a Board of Directors composed of dairy farmers. The Board would be appointed by the Secretary of Agriculture from nominees submitted by producers. Board membership would be on a geographic basis to assure representation of all milk producing regions. The legislation calls for a Board of not less than 36 members selected on the basis of geography and milk production volume. In determining regional representation, states would not be divided. A region might include more than one state and a region might have more than one director.

4. The program would be directed toward increasing sales and consumption of milk and dairy products and related marketing and nutritional research and nutrition education.

   This would provide a national program which avoids duplication of existing programs, concentrates effort in areas holding promise of greatest potential for increased sales, and whose impact would yield benefits to all dairy farmers through the milk pricing structure.

5. The program would go into effect at the direction of the Secretary of Agriculture after receiving public comment on a proposed promotion order. Its continuation after December 31, would depend on approval of a majority of dairy farmers voting in an industry-wide referendum. In such referendum, members of cooperative associations would be allowed to vote as a unit. If this were done, the cooperative's Board of Directors would be required to notify the membership of how their vote was cast and the reasons for such vote. At the same time, opportunity would be provided for the individual member to cast a separate ballot.

   In addition, the legislation provides a means for producers to petition the Secretary to hold a referendum to determine if the program should be continued.

6. The program would be mandatory with no provision for refund to individuals. The program is designed and intended to improve markets and income for all dairy farmers throughout the country. To the extent that this is accomplished, all will share in the returns, therefore, all should share in the commitment.

7. There would be a very limited requirement for staff to carry out the directions of the Dairy Board. For the most part, program activities should be carried out on a contract basis.

Attachment #6

FULL SUPPORT DAIRY PROMOTION PROGRAMS THROUGH EITHER STATE PROMOTION ORDERS OR COOPERATIVE ACTION

State	1981 milk production -billion pounds-
Wisconsin	22,705
California	14,244
New York	11,093
Michigan	5,103
Washington	3,017
Vermont	2,301
Idaho	2,160
Georgia	1,396
Oregon	1,220
Maine	699
TOTAL	63,938
Cooperative Programs	21,776
Totals estimated	22,526
TOTAL	85,714

Rate of assessment for state programs ranges from 5.0 cents per hundredweight to 1.1 percent of the price of milk. Under cooperative programs, the rate ranges from 9 cents per hundredweight to one percent of the gross price of milk at the farm plus one cent.

Attachment #7

SECTION-BY-SECTION EXPLANATION OF THE DAIRY PROMOTION PROGRAM

Section 201. Findings and Declaration of policy.

Because dairy products are basic foods and a valuable part of the human diet; dairy product production is a significant factor in the national economy; there must be ready availability and efficient marketing of dairy products to meet the needs of the market; the maintenance and expansion of markets for dairy products is vital to the welfare of dairy farmers and others; and the marketing of dairy products involves interstate commerce, the Congress declares it to be policy that the authorization and establishment of an effective and continuous program of promotion designed to strengthen the markets for U.S. dairy products is essential and in the public interest.

Section 202. Definitions.

(a) The term "Board" means the National Dairy and Research Promotion Board established under the Act.
(b) "Department" means the Department of Agriculture.
(c) "Secretary" means the Secretary of Agriculture.
(d) "Milk" means all classes of cow's milk produced in the United States.
(e) "Dairy products" means manufactured dairy products for human consumption derived from the processing of milk and includes fluid milk products.
(f) "Fluid milk products" means manufactured liquid products derived from the processing of milk and customarily consumed as beverages.
(g) "Person" is any individual, group of individuals, partnership, corporation, association, cooperative or other entity.
(h) "Producer" is any person engaged in the production of milk in the United States for commercial use.
(i) "Promotion" means actions to advance the image and sales of, and demand for dairy products, including paid advertising, sales promotion and publicity.
(j) "Research" means such efforts as studies testing effectiveness of market development and promotion efforts, studies relating to the

nutritional value of milk and dairy products and other related efforts to expand demand for milk and dairy products.

(k) "United States" means the several states, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands and the territories and possessions of the United States.

Section 203. Issuance of Orders

(a) Within 30 days of receipt of a proposal for an order, the Secretary shall publish the proposed order and request public comment. A proposal for an order may be submitted by organizations certified under Section 206 or by any interested person affected by the Act.

(b) The Secretary shall issue a dairy products promotion and research order after opportunity for public comment. The order shall become effective no later than 90 days following publication of the proposal.

(c) The Secretary is authorized to amend dairy products promotion and research orders.

Section 204. Required terms in orders. Any order issued shall contain the following terms and conditions.

(a) Provision for establishment of a National Dairy Promotion Board

(A) The board would consist of not less than 36 members.

(B) The order shall define the powers and duties of the board which are limited to these set out in this Section, including powers:

1. Receive, evaluate and budget for promotion and research project proposals and make recommendations to the Secretary regarding such proposals.
2. Develop promotion and research project proposals and seek their implementation.
3. To administer the order according to its terms and provisions;
4. Make rules and regulations to carry out the terms and provisions of the order;
5. Receive, investigate and report complaints of violations of the order to the Secretary; and
6. Recommend amendments to the order to the Secretary.

(7) Board members will be appointed by the Secretary for terms of three years. No member shall serve more than two consecutive terms. Initial appointments shall be proportionately for one, two and three year terms.

(8) The board may appoint an executive committee from its members. Its membership shall reflect the composition of the membership of the board and it shall have such duties and powers as are granted it by the board.

(9) Board members shall serve eithout compensation but shall be reimbursed for reasonable expenses, including a per diem allowance as recommended by the board and approved by the Secretary.

(b) All members of the board shall be milk producers. In appointing board members, the Secretary shall select appointees from nominees submitted by eligible organizations certified by the Secretary unless it is determined that a substantial number of producers are not represented by such organizations. In that case, the Secretary will provide a means for making such nominations. In making appointments, the Secretary shall consider the geographic distribution of milk production. Whole states will compromise the basis for such consideration and a region may be represented by more than one director. A region may also be made up of more than one state.

(c) The board shall develop promotion or research plans and projects and submit them to the Secretary for approval. Only those approved by the Secretary will take effect.

(d) On a fiscal year basis, the board shall submit its budget to the Secretary for approval. This will include administrative expenses as well as costs of promotion and research projects.

(e) Each milk producer shall pay an assessment of fifteen cents per hundredweight on milk marketed. The assessment will be collected by those making payment to farmers for milk. Producers participating in qualified state and regional programs intended to increase the consumption of milk and dairy products generally, shall receive credit of up to 10 cents per hundredweight for their contribution to such programs. Funds collected shall be remitted to the Board as prescribed in the order. To facilitate collection, the board is authorized to designate different operators or classes of operators of plants to recognize marketing practices in the industry. The Secretary may bring suit against any person subject to the order for the collection of the assessment.

(f) The board shall maintain such books and records and submit periodic reports as required by the Secretary.

(g) With the approval of the Secretary, the board may enter into contracts for the development and conduct of promotion and research activities. Such contracts will provide that the contractor submit a plan and budget to the board setting forth estimated program costs. Such program will become effective only if approved by the Secretary. The contracting party shall keep accurate records of all transactions and make periodic reports and accountings to the board as required by the Secretary or the Board.

(h) Pending disbursement of funds, the board may (with the approval of the Secretary) invest funds collected. Such investments shall be in obligations of the U.S. or agencies of the U.S. or in general obligations of any State or political subdivision or in interest-bearing account or certificate of deposit of a Federal Reserve System member bank, or in obligations guaranteed as to principal and interest by the United States.

(i) No funds collected by the board may be used to influence government policy except that the board may make recommendations to the Secretary. as needed amendment to the dairy products promotion order.

Section 205. Permissive terms in orders. Orders issued under the Act may contain one or more of the following terms and conditions:

(a) Terms allowing establishing, issuing, putting into effect and the administration of projects for advertising and promotion of the sale and consumption of dairy products or research projects and for the disbursement of the funds for such programs. Such programs shall not use unfair or deceptive practices with respect to the quality, value or use of competing products.

(b) Terms requiring operators of plants receiving milk for commercial use to maintain records and to make them available for inspection. Such operators may also be required to file such reports as are necessary for the administration and enforcement of the Act. All information obtained shall be kept confidential by the Department. No information obtained shall be made available except in connection with administration obtained shall be made available except in connection with administration of the Act or as part of enforcement activities in connection with it.

(c) Terms and conditions incidental to and not inconsistent with the provisions of the Act and necessary to effectuate other provisions of an order.

Section 206. Certification of organizations.

(a) The Secretary shall certify eligibility of organizations to participate in making nominations to the board. The Secretary's determination as to certifications shall be final.

(b) In addition to other information, certification shall be based on a report submitted by the organization including the following information:
   (1) Geographic territory covered by the organization's active membership.
   (2) Nature and size of the active membership, including the proportion of the total number of active milk producers represented.
   (3) Evidence of the stability and permanency of the organization.
   (4) Sources of the organization's operating funds.
   (5) Functions of the organization.
   (6) A statement of the organization's ability and willingness to further the aims and objectives of the Act.

(c) The primary considerations in certifying an organization shall be whether its membership consists primarily of milk producers and whether the overriding interest is in the production of milk and dairy products.

Section 207. Requirement of a referendum.

(a) Within 60 days preceding September 30, 1985, a referendum will be conducted among producers to determine whether the order will be continued. The order will be discontinued unless approved by at least one-half of the producers voting in a referendum.

(b) The Secretary shall be reimbursed for the expenses incurred in the conduct of a referendum (other than salary payments to government employees).

Section 208. Suspension and termination of orders.

(a) After September 30, 1985, the Secretary may terminate or suspend an order or a provision of an order if he finds that it obstructs or does not effectuate the policy of the Act.

(b) After September 30, 1985, on request of a representative group of milk producers comprising 10 percent or more of the producers subject to the order, the Secretary shall conduct a referendum to determine if producers desire to continue the program. The Secretary may, on his own volition, call for such a referendum at any time.

Section 209. Cooperative association representation.

In any referendum on an order or amendment to an order, cooperative associations engaged in marketing milk or dairy products shall be allowed to vote on behalf of their members. If a cooperative association exercises this prerogative, it shall provide its members a description of the question presented in the referendum and a statement of the manner in which the association's vote was cast. The members shall also be informed of procedures to follow should a member choose to cast an individual ballot. Such individual ballots will be tablulated by the Secretary and the vote of the cooperative association adjusted accordingly.

Section 210. Petition and review.

(a) Any person subject to an order may petition the Secretary stating that the order, a provision of the order or obligation under the order is not in accordance with law and requesting relief from the order or modification. The Secretary shall provide opportunity for a hearing on the petition. After such hearing, the Secretary shall make a ruling on the petition which, if in accordance with law, shall be final.

(b) U.S. district courts are vested with jurisdiction to review such rulings if a complaint is filed within 20 days of the ruling. If the court determines a ruling is not in accordance with the law, it will remand the proceedings to the Secretary with instructions to either make such ruling as the court determines to be in accordance with the law or to take such further actions as the court feels the law requires.

Section 211. Enforcement.

(a) U.S. District courts have jurisdiction to enforce and to prevent violations of orders or regulations issued under the Act. Civil actions brought under this provision shall be referred to the Attorney General for action. If the Secretary believes that written notice or warning to persons committing a minor violation would adequately serve administration of the Act, he is not required to refer such action to the Attorney General.

(b) Any person willfully violating any provision of an order or who willfully refuses to remit any assessment is liable to a penalty of not more than $1,000 for each such violation.

Section 212. Investigations; Power to subpoena and take oaths and affirmations; aid of courts.

The Secretary may make such investigations as deemed necessary for the effective administration of the Act. In such investigations, the Secretary is empowered to administer oaths and affirmations, summon witnesses, take inquiry. In the case of a refusal to obey a subpoena, the Secretary may invoke the aid of any court in the United States within the jurisdiction of which the investigation is carried on or where such person resides or does business. The court may issue an order directing such person to appear before the Secretary and to produce records or give evidence touching the matter under investigation.

Section 213. Administrative provision.

Nothing in this act shall be construed to preempt or supersede any other program relating to dairy product promotion organized and operating under the laws of the United States or any states. The provisions of this Act applicable to orders shall be applicable to amendments to orders.

Section 214. Separability Clause.

Section 215.
Necessary funds to carry out the provisions of the Act are authorized to be appropriated. No appropriated funds shall be used for payment of the expenses or obligations of the board in administering an order.

STATEMENT OF JAMES P. (TOM) CAMERLO, CHAIRMAN OF THE BOARD, UNITED DAIRY ASSOCIATION

I am James P. (Tom) Camerlo, a dairy farmer from Florence, Colorado. I am Chairman of the Board of United Dairy Industry Association. I am also President of Mountain Empire Dairymen's Association, a dairy cooperative marketing association headquartered in Thornton, Colorado.

The United Dairy Industry Association is an organization financed and directed by dairy farmers, processors, handlers and dairy equipment manufacturers. In excess of 90 percent of its funding comes from dairy farmers. Its membership represents approximately 70 percent of the milk production in the United States with milk promotion programs in 43 states. The purpose of the organization and its efforts is to expand domestic markets for milk. These efforts are carried out through the three operating elements of UDIA, American Dairy Association, Dairy Research, Inc., and National Dairy Council.

Throughout my career as a dairy farmer, I have worked to develop strong marketing programs that will assure me and my fellow dairymen of the best possible market for our production. As I see it, this effort has many facets. Locally, much has been done to improve the efficiency of our dairy cooperatives. At a national level, the work of the United Dairy Industry Association and related efforts in many states has been aimed at maintaining and expanding the markets for milk and dairy products and providing the foundation for continued milk sales through sound, effective nutrition education efforts.

For too long, our efforts as farmers have been almost totally oriented toward the production side of our business. Without question, we have been successful in these efforts. The record of American agriculture is one of records. Production records that have been exceeded almost yearly in the recent past.

Unfortunately, that is not enough to assure the economic well-being of our industry. No longer is it sufficient for the dairy farmer to produce a pure and wholesome product with the attitude that it will sell itself or that someone else will sell it for him.

We face an increasingly competitive market for the consumer's food dollar. That competition is most readily seen in the level of spending and advertising and promotion of various products. In 1981, $658.9 million was spent on the promotion of non-alcoholic beverages including soft drinks, powdered drinks, juices, coffee, tea and bottled water. Another $938.3 million was spent for the promotion of beer, liquor and wine. In the dairy industry, we spent just over $30 million on the promotion of fluid milk and felt that was doing pretty well as it was a small increase over the year before.

The fact of the matter is that we have been losing the battle to hold these markets. This is visible in the decline in per capita consumption of fluid milk. It is visible in the problems we face today with milk production outstripping the demand for milk and dairy products.

I do not contend that the total answer to the present problems confronting the dairy industry can be found in an expansion of dairy product promotion and advertising efforts. Norman Barker, President of National Milk Producers Federation, has outlined the Dairy Compliance Program under which dairy farmers would be provided an incentive to bring production in line with market needs and a disincentive to continued expansion of output.

The Dairy Compliance Program is a sound plan. It will reduce production. It will curtail government costs under the Dairy Price Support Program. It will help to maintain farm income for those dairymen contributing toward resolution of our present problems.

That plan was developed by dairy farmers. I have participated in these efforts myself in my role as First Vice President of National Milk Producers Federation and a dairy farmer. But in addition to meeting the current need to balance supply and demand, more must be done. We must address the future as part of this effort. In doing so, we can also contribute to a more effective solution to the present problem.

This is why the National Dairy Promotion Program is included as an integral element of the plan put forward by the National Milk Producers Federation.

Product promotion, research and nutrition education are not new activities. The dairy industry has been supporting these efforts through United Dairy Industries Association for many years. A number of very active state, regional and cooperative efforts are directed toward similar ends.

The obvious question, of course, is, "If this work has been going on, why hasn't it met the need? Why haven't we been able to maintain the consumption level for milk and dairy products?"

As with any other enterprise, the results are proportionate to the resources available to the task. In 1981, the combined efforts of the industry at all levels provided about $94 million for generic product promotion, research and nutrition education. These efforts have borne fruit.

USDA reports that commerical disappearance totaled 123.0 billion pounds milk equivalent in 1982--an all-time high. That was a 3.2 percent increase over the 119.2 billion pound level of 1980 and 2.1 percent above 1982's 120.5 billion pounds. On a product basis, cheese sales rose 2.9 percent in 1982, butter sales were up 3.4 percent, the sale of frozen products increased 1.4 percent. On the down side, fluid milk sales (on a milk equivalent basis) were off by 2.3 percent.

Market studies indicate that a substantial portion of this record is due to improved product promotion and nutrition education efforts. But we are merely scratching the surface. The potential is there to accomplish much more.

A ten market study conducted in 1979 by Michigan State University researchers demonstrated the positive link between fluid milk sales and generic advertising efforts. As reported to this Committee last year by Professor Stan Thompson of Michigan State who directed the work, dairy farmers receive a return of $2.20 for every $1.00 invested in such programs.

Based on that work, UDIA has estimated that an additional $48.6 million could be effectively used for media advertising in the promotion of fluid milk products. Operating at this optimum level, it would be possible to generate 2.6 billion pounds in additional sales of these products.

In the mid-1970's, USDA's Economic Research Service conducted extensive research on the potential of increased sales of butter and cheese as the result of increased product promotion. Updating the results of that work to reflect current costs, an additional $41.2 million spent on media advertising could yield increased sales of butter of 60 million pounds. That's 1.27 billion pounds of milk.

The results of that work were even more impressive in the case of cheese. According to the USDA work, an added $23.1 million for media work would increase cheese sales by 244 million pounds, the equivalent of 2.11 billion pounds of milk.

These estimates for cheese appear very conservative in light of the experience of UDIA resulting from the special cheese promotion programs conducted the past few years. Market studies conducted for UDIA to measure the effectiveness of the "Slice of Life" cheese promotions in 1980 and 1981 demonstrated an increase in sales resulting from these efforts of 188 million pounds of cheese--the equivalent of 1.7 billion pounds of milk. This result was achieved with the investment of an average of $4.5 million per year in these campaigns.

To demonstrate the direct tie of such efforts to measures designed to reduce government costs under the Dairy Price Support Program, if the cheese that was purchased by consumers as a result of these efforts had found a market only with the Commodity Credit Corporation, price support program costs would have been increased by an estimated $288 million.

There are additional opportunities as well. The nutrition education work of the National Dairy Council and its local units across the country establish the foundation for sound nutrition through the entire population. The acceptance of the work done by these nutrition professionals by local schools and others is testimony to their effectiveness and the need for their input. To provide an optimum program to meet current needs, budget studies conducted for National Dairy Council indicates a total annual budget of $71.9 million would be required. In 1981, only $17.4 million was available.

The promotion work I have discussed addresses only efforts aimed at the retail level. As you know, there are rapidly growing away-from-home food and institutional markets that must be addressed as well. The dairy industry devotes substantial resources to this at the present time, however an optimum program in these areas would require an additional $67.4 million compared with the $41.3 million now being spent.

To fully realize the potential that exists, industry-wide programs could effectively utilize an estimated $328.4 million for product promotion, nutrition education and research and related market research and analysis. In 1981, $94.2 million was devoted to this work.

Even at present levels, this represents a substantial investment on the part of dairy farmers. I believe it is a greater commitment to this work than that of other agricultural producers. But the potential for greater returns and more effective efforts exists. What we need is the authority and the opportunity to bring that about. In large measure, this would be accomplished under the National Dairy Promotion Program.

Just looking at the potential for increased milk sales through retail promotion, market research has demonstrated a potential for an increase of 2.6 billion pounds, milk equivalent, in fluid milk sales; 1.27 billion pounds, milk equivalent, in butter sales; and 2.11 billion pounds, milk equivalent, in cheese sales. That totals 5.98 billion pounds of milk--almost 6 billion pounds. Again, looking at the potential impact this might have on government costs, if the alternative market for this milk were the CCC through the Dairy Price Support Program, it would cost the government over $900 million to remove the products made from this milk from the market.

As outlined in the statements of Mr. Barker and Elwood Kirkpatrick, the program would provide a major increase in the resources available for this work. The principle of full support represented in the program is sound. All farmers share equally in the returns and benefits of these efforts, therefore, the burden of such a program should be borne by all farmers.

The potential is there. The effectiveness of these efforts is given. Because of the existence of ongoing programs, there would be no need for creation of new, large administrative structures to carry out the work. The funds provided under the program would be devoted directly to meeting the needs that exist.

What is needed, what is being requested, is the authority to proceed with such a program. This is a self-help effort in the strictest sense, one through which the dairy industry will use its own funds to place its products where they will do the most good--in the commerical market.

I urge your support for the National Dairy Promotion Program.

STATEMENT OF ELWOOD KIRKPATRICK, PRESIDENT, MICHIGAN MILK PRODUCERS ASSOCIATION

I am Elwood Kirkpatrick, a dairy farmer from Kinde, Michigan and President of Michigan Milk Producers Association, a dairy cooperative marketing association headquartered in Southfield, Michigan and owned by dairy farmers from throughout the state of Michigan. I also serve on the Board of Directors and the Executive Committee of the National Milk Producers Federation.

I would like to direct my comments today to the National Dairy Promotion Program which is an integral part of the policy recommendations advanced by the National Milk Producers Federation for dealing with the current dairy surplus situation. Mr. Norman Barker, President of the National Milk Producers Federation will address proposed amendments to the Dairy Price Support Program as contained in the Dairy Compliance Program. I would like to associate myself with his testimony. I am in full accord with what he has to say.

Dairy farmers have had substantial experience in the operation of dairy product promotion programs. Such efforts have demonstrated positive effects in maintaining and expanding consumption of milk and dairy products. At the present time, however, there is an urgent need to increase these efforts. The concept set forth in the National Dairy Promotion Program will meet this need.

NEED FOR THE PROGRAM

Much has been said of the problems being experienced with the growing cost of the Dairy Price Support Program. Most of this discussion has centered on the fact that milk production has expanded in the past few years, resulting in increased Commodity Credit Corporation dairy product purchases. There is another side to that issue. This involves the decline in milk consumption that has taken place in recent years. According to reports of the U.S. Department of Agriculture, milk consumption per capita stabilized and showed some increase during the late 1970's following a substantial decline during the 1950's and 1960's. The experience of the 1970's was, we feel, the result of increased and more effective product promotion programs.

But during the past few years, we have again experienced a decline in per capita consumption. From 548 pounds milk equivalent (fat-solids basis) per capita consumption in 1979, consumption fell to 544 pounds in 1980 and to 541 in 1981. This represents a total decrease in milk consumption of almost two billion pounds from 1979 per capita levels and four billion pounds on the basis of the 558 pounds consumed per capita in 1972.

Milk Consumption Per Capita, U.S.
Milk equivalent, Fat-solids basis

Year	-pounds-
1969	569
1970	561
1971	556
1972	558
1973	551
1974	539
1975	540
1976	540
1977	542
1978	545
1979	548
1980	544
1981	541

Source: DAIRY, OUTLOOK AND SITUATION,
USDA, ERS, DS-390, September, 1982

The decline in consumption we are witnessing at the present time encompasses a wide range of dairy products and fluid milk. The increase in consumption of manufactured products in recent years has been a major factor in maintaining and increasing milk consumption. This is particularly true of cheese. In 1970, per capita cheese consumption was 11.5 pounds. By 1978, this had increased to 17.2 pounds. There was a slowing of the pattern of expanding consumption in 1979, however, growth resumed in 1980, in large part due to the specially targeted product promotion programs conducted by the dairy industry. This successful effort was repeated in 1981 with equally impressive results.

When we look at the food marketing picture today, we witness a highly sophisticated industry where thousands of products compete for the attention and the budget of the consumer. Hundreds of millions of dollars are spent on the promotion of the products that stock the shelves of the nation's food stores. For too long, we in agriculture have assumed that because we produce a product that is pure and wholesome and one which provides an unmatched nutritional value that it has an automatic acceptance by the consumer. We have learned, we are continuing to learn, that this is not the case.

The dairy industry is witnessing the development of a new generation of imitation dairy products that compete for the consumer dollar. Many of these products are presented as "nutritionally equivalent" to genuine dairy products, a claim not supported by scientific fact but allowed by mandate of the Food and Drug Administration.

It is estimated that imitation cheese products represent almost five percent of the total cheese market in the United States today. The primary feedstock for these products is casein. I realize that neither the U.S. International Trade Commission nor the administration feels that such inroads into a major market represents material interference, but for the U.S. dairy farmer it is most significant.

It is for the purpose of addressing these issues that dairy farmers have joined together in support of the National Dairy Promotion Program. The legislation before the Committee would authorize the development of such a national program aimed at promoting expanded use of milk and dairy products and assisting related marketing and nutritional research as well as nutrition education efforts. There is solid evidence that such efforts are successful. Such an effort is an essential part of any overall industry program to address the problems currently confronting the dairy industry.

NATIONAL DAIRY PROMOTION PROGRAM

The legislation before the Committee is similar in most respects to that approved for other commodities in recent and essentially identical to the programs supported by dairy farmers in several states. It authorizes the development of a national producer-funded program for the promotion of milk and dairy products as well as related marketing and nutritional research and nutrition education efforts. The development of the program would be under the direction of the Secretary of Agriculture and it would initially be placed in operation at his direction.

The program itself would be directed by a Board of Directors comprised of dairy farmers, however, budgets for program operations and actual project plans would be subject to review and approval by the Secretary.

There are a number of areas in which this proposed program differs from those approved for other commodities.

The program would initially be established at the direction of the Secretary of Agriculture. The Secretary would issue the basic order establishing the program after receiving public comment on a proposal submitted to him by interested parties. This may appear to be deliberately bypassing the process of producer referendum that is common in placing such programs into effect. There is sound reason for doing so. The initial intent of the program is to assist as rapidly and directly as possible in reducing government costs under the Dairy Price Support Program through expansion of consumption of milk and dairy products. Each additional pound of cheese consumed means 10 pounds less milk available for sale to the Commodity Credit Corporation under the price support program.

The lengthy process of national hearings and referendum involved in initially establishing such a program would mean substantial delays in implementing these efforts. These delays would be costly from the standpoint of both the government and the dairy farmer. We are dealing, essentially, with an emergency situation that requires emergency actions.

The conduct of the program in this manner is meant as a short term condition. In order for the program to continue beyond December 31, 1985, it would have to be approved by a majority of the dairy farmers voting in a referendum held during August or September 1985. Thereafter, any program changes would have to be approved in a similar producer referendum and a representative group of 10 percent or more of the producers covered under the program would be able to petition the Secretary for a referendum to determine whether farmers desired to continue the program at any time after October 1, 1985.

The legislation calls for a mandatory assessment on all milk marketed of 15 cents per hundredweight. The full support nature of the program is essential to its success. The dairy industry has had considerable experience with voluntary programs or programs under which individual producers can request refunds of contributions. At the same time, considerable experience has been gained in the use of mandatory or full support programs of this type. Of the two, the effectiveness of the full support program is so much superior that a comparison can hardly be made.

The funds provided under such a program are used to further market expansion efforts for all dairy farmers. This point is critical. A major weakness of voluntary programs has been that those participating carry the burden for the entire industry. All farmers benefit to an equal degree from such efforts, therefore, each should be expected to share in program costs.

Provision is made to allow dairy farmers already making contributions to qualified programs aimed at promoting the use of milk and dairy products generally to be credited for up to ten cents of their contributions to such programs. This assures that the national program would not supersede existing successful state, regional and cooperative programs. To a great degree, the national effort would be complimentary of these programs as it would permit specific targeting of promotion opportunities when local funds may not be adequate to meet a need. It would also allow reinforcement of these existing efforts with research measuring the program's effectiveness and studies regarding the nutritional value of milk and dairy products.

Even with the 10 cent credit, for many dairy farmers their participation in this program will be in addition to substantial contributions they are already making to such operations. In my own case, I presently participate in state, regional and national programs. In my own cooperative, there is virtually unanimous support for this proposal. It has been discussed in detail during membership meetings in recent months and Michigan Milk members are not only supportive of the concept, they are enthusiastic in that support.

As noted earlier, there is precedent for a mandatory research and promotion program in the dairy industry. The most recently approved program, that in Wisconsin, was approved by more than 76 percent of the dairy farmers in the state in a referendum ending last month.

In addition to the state programs, many of the cooperative marketing associations maintain their own advertising and promotion efforts as well as provide active support to nutrition education programs. In many of these instances, a portion of the funds are used for cooperative brand advertising with the balance devoted to generic promotion. The generic promotion efforts of cooperatives would be recognized as qualifying under the crediting provisions of the proposed legislation.

In total, over sixty percent of the milk supply of the nation is included under full support promotion efforts either under a state or cooperative program.

It has been suggested that the referendum provisions of the measure be amended to remove the authority for cooperative marketing associations to vote on behalf of their members. Frankly, the provisions now in the bill will assure broader participation in the producer referendum and more fully reflect the desires and needs of dairy farmers.

Each individual dairy farmer would be assured the right to cast his ballot in any referendum. If a cooperative marketing association chose to exercise the option to vote on behalf of its membership, it would be required to inform the membership of how the vote was cast and the reasons for the action. At the same time, information would be provided as to how a member disagreeing with the cooperative's action could cast an individual ballot.

This assures a broad participation by dairy farmers. It assures them that they will have complete information on the program before making an individual decision. Finally, it guarantees them the opportunity to exercise their vote as an individual if they should so desire.

There is another point that should be clearly understood in this regard. Dairy cooperative marketing associations are owned and operated by dairy farmers. While professional management is employed to carry out the operations of the cooperative, the policy decisions are made by dairy farmers themselves through member-elected Board of Directors. These directors act on behalf of their fellow members in determining policy. As one who has been active in his own cooperative throughout my career as a dairy farmer, I know that one of the prime requirements within such an organization is action that is in keeping with the desires of the membership.

Because there are already substantial milk promotion programs in operation throughout the nation, the opportunity exists to expand these efforts with little or no administrative or overhead costs. The National Dairy Promotion Board directing the program would be able to receive proposals from existing agencies, review them and, if accepted provide funds for such operations.

This would mean, in the fullest sense, that this program would operate on a complimentary basis with existing promotion efforts. As clearly stated in the legislation, it is not intended to replace or supplant existing programs. These are effective, they must be continued. What we are seeking here is a means of making existing programs more complete, more effective and to do a more complete job on a national basis.

ANTICIPATED IMPACT OF NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

What benefit can dairy farmers expect from funds committed to a program of promotion of manufactured dairy products?

Several years ago, the Economic Research Service of the U.S. Department of Agriculture conducted extensive research into the impact of promotion programs aimed specifically at butter and cheese. The findings of these studies were published in BUTTER AND CHEESE, Sales Changes Associated With Three Levels of Promotion, Agricultural Economic Report No. 322, January 1976. These studies indicated substantial potential returns from such programs. Quoting from the report's summary:

> "A 9-cent per capita investment in promoting butter in controlled market tests resulted in a sales gain of about 4.5 percent over sales with no promotion. The study period was May 1972-73. Sales dropped, however, by 4.5 percent when the investment level was 6 cents per capita and by 3.5 percent at a 3-cent promotion level. The negative results were apparently due to counter-promotions for oleomargarine in the form of advertisements that offered cents-off coupons on oleomargarine."
>
> "For cheese, the 3-cent-per-capita promotion level did not increase sales significantly. But gains of about 15 percent occurred at promotion levels of 6 and 9 cents. Moreover, for each 1-percent change in the number of trade advertisements for cheese (both retailer and manufacturer), cheese sales changed one-half of 1 percent in the same direction."

Overall, it was concluded that a $12 million expenditure nationally would have increased cheese consumption 244 million pounds annually or about 2.4 billion pounds milk equivalent. A national promotion program for butter costing $18 million would raise butter sales by 450 million pounds milk equivalent. The estimates for butter assumes there would be counterpromotion of oleomargarine as occurred in USDA's test markets.

Updating the results of the USDA work to reflect increases in advertising costs, it is estimated that it would cost $72 million today to operate the cheese and butter promotion programs described above. Such programs would increase consumption, however, by almost 2.9 billion pounds milk equivalent. If the alternative market for this product was the CCC, this represents a savings of $460 million in reduced government purchases at the present $13.10 support level.

The USDA study was based only on the impact of promotion efforts on sales through supermarkets. It did not measure or estimate the potential increase through other outlets. Therefore, it could be expected that the impact would be somewhat greater than presented.

The results of the USDA investigation are borne out by the experience of the "Slice of Life" cheese promotion campaigns conducted in 1980 and 1981 by the United Dairy Industry Association. These promotion efforts were conducted during September, October and November each of the two past years. The cumulative effect of the effort was an increase in cheese purchases of 188 million pounds during the two years.

The initial effort in 1980 brought about an 86.7 million pound increase in purchases over the previous year. When repeated the following year, another 101.6 million pound gain was recorded.

As detailed for the Committee during hearings on similar legislation a year ago, research by Dr. Stanley Thompson at Michigan State University has indicated that the potential return to dairy farmers for an investment in generic promotion of fluid milk returns $2.20 for every dollar committed to such programs. Analysis of this work and similar studies indicate there exists considerable potential for expansion of effort in this area if adequate funds are available for such programs.

While precise estimates are not available, it is anticipated that the program envisioned by this legislation could provide an additional $120 million to be used for dairy product promotion work. This would be new money provided by dairy farmers in addition to that they are already committing to these efforts. If, as some have estimated, this could have the effect of expanding the demand for milk and dairy products by some six billion pounds annually over a period of time, it would have significant effects on dairy farmer income. It would also mean substantial government savinngs if the alternative market for this milk is the Commodity Credit Corporation through the Dairy Price Support Program.

This is why I am so interested in and concerned with this legislation. It can mean money in my pocket as a dairyman. It can also assist in relieving the current pressures on the government program that has provided a basic level of stability and price assurance to my industry. I view this, quite frankly, as a logical and essential companion to the Dairy Compliance Program discussed by Mr. Barker.

Together, these programs will work to being about a restoration of the supply-demand balance within the dairy industry and serve to maintain strong markets for dairy farmers. In the end, that is the basic essential needed to assure a continued supply of milk to meet the needs of the nation.

STATEMENT OF ALBERT McDONALD, COMMISSIONER OF AGRICULTURE AND INDUSTRIES, STATE OF ALABAMA

Mr. Chairman, I am Albert McDonald, Commissioner of Agriculture and Industries for the State of Alabama. I consider it an honor to appear before this distinguished Senate Committee.

Mr. Chairman, the dairy industry is in trouble and needs help. The problem is easy to identify; the solution is a bit more difficult. The support price was set too high. Farmers responded by producing more milk than needed by the commercial market, resulting in the Commodity Credit Corporation acquiring great quantities of supported products. Surplus costs of the large holdings concern dairy farmers and all taxpayers. It is incumbent on this Subcommittee that the facts involved in the present dairy situation be accurately determined and that the dairy legislation recommended be based on an honest and fair appraisal of the root problems of the dairy industry. It is obvious the 1982 dairy production tax that is about to be imposed on dairy farmers does not recognize the problems, and is an unfair and ill-conceived program. It should be abolished immediately.

In recognition of these observations, the Board of Directors of the National Association of State Directors of Agriculture last month passed a resolution recommending that the 1982 dairy tax be rescinded, that the dairy support price be lowered $1.00, that a floor be placed on Class I fluid milk, and that a formula be established which would allow the Secretary to raise or lower support price based on the anticipated CCC purchase of dairy products. I mention this because these state Commissioners of Agriculture have recognized that this is the best method for reducing surplus production in the short term while maintaining production levels of wholesome fresh milk in all regions of the nation. In addition, the long term solution suggested in the formula would provide a continuous adjustment of supply.

It is also obvious that 1983 dairy legislation must provide an economic setting in which an adequate supply of wholesome and fresh milk at reasonable cost can be made available to all consumers in all areas of the United States. The production of milk must offer the potential for profit to producers in every area of the nation. At the same time, price must not be so high as to bring forth an unneeded supply and the accumulation of surplus milk products as exists today.

The program that achieves the goal of providing fairness of price and profit potential to producers, as well as an adequate supply of fresh milk at reasonable prices to consumers throughout the country, is outlined as follows: (1) Cut the support price. (2) Use an economic formula to adjust support price as supply-demand conditions dictate. (3) Put a floor under Class I price to protect milk supplies produced for local fluid milk markets. A dairy program incorporating these provisions can achieve the goals enumerated equitably and with fairness to all sectors of the industry and consuming public.

Consumers must recognize that the major impact of the support price cut will be to reduce surplus milk production and decrease the necessity of CCC outlays to purchase surplus dairy products. The net result will be lower taxpayer liability and reduced prices of milk products to consumers.

Reasons for Supporting the Support Price Proposal

(1) The proposal retains the price support program. Using supports to undergird milk prices, a formula adjusts support price up or down depending on the supply-demand balance. The program prevents wide swings in production and prices. The program provides price and income stability to dairy farmers and a consistent and dependable supply of milk to consumers. This is a major advantage of the proposal.

(2) An immediate cut should be made in the support price. With a lower price, farmers who produce milk used in manufacturing products purchased by the government will reduce milk production. With less milk production, there will be fewer purchases by the CCC and lower government costs.

Some have said that lower prices will not affect milk production, or may cause increases in milk production. This argument is absurd. In the absence of any changes in other forces affecting milk production, a cut in price will cause farmers in the aggregate to reduce supply. I am not aware of any definitive studies that show otherwise. Lower government expenditure costs are an advantage for the price support proposal.

(3) Lower milk prices will result in lower milk product prices to consumers and will cause increased milk product consumption, another advantage for the proposal.

(4) A floor would be established under Class I prices, rather than letting Class I prices fall proportionately with the reduction in Class III prices. Our dairy problem is not with milk being produced for the Class I or fluid market. Dairy farmers who supply that market should not bear the full burden of a price reduction on that portion of milk used in Class I products. In Alabama, dairy farmers produce for the fluid market and a high percentage of their marketings is used in Class I (83 percent in February, 1983). Maintenance of the Class I prices across the country will assure continuation of locally produced fresh milk for consumers.

Some are saying that legislation providing for a cut in the support price is a regional plan and divisive in the dairy industry. That is incorrect. Up until now, the support program has not been regional or divisive. Why is it now when the price needs to come down? The purpose of the price support program is to provide "price support" and not a program to establish a price so high as to make the CCC the major buyer of supported products.

We oppose the Dairy Compliance program for many reasons. It is a "crash-program" without consideration for long-run consequences. This program treats symptoms and does not get at the root problem. Implementation of the program will result in one of the largest ever dispersal of cull cows. Over one million milk cows will go to slaughter in a few weeks if the program becomes law. Cattle prices will become greatly depressed. The cattle industry does not need to share in this way in dairy problems.

The Dairy Compliance plan does not provide for milk product price reductions to consumers. It is difficult to understand the logic of a program to resolve a surplus problem without providing the opportunity for consumers to benefit from the surplus through lower product prices.

A serious disadvantage of the Dairy Compliance plan is that it will result in a drying up of local milk produced to supply the fluid milk market. In Alabama and throughout the United States milk used in fluid products (Class I) is produced by local dairy farmers. In some local areas nearby supply is not adequate and supplemental milk is acquired from the nearest source. With the base plan in the Dairy Compliance program, it is likely that over 10 percent of the milk supply in the Southern region will be lost. Local supply will be inadequate for market demand, and milk will be shipped long distances to supply the market at a higher cost to consumers and at a reduction in milk quality. With the base plan local dairy farmers will be prohibited from expanding production to fulfill local needs. Never before have dairy farmers sought a solution to a surplus problem that prevents local producers from competing for local fluid milk markets. Also, there would be many problems in calculating bases and providing equity of treatment among dairy farmers. A national milk base plan would be a national headache. In short, a base program under these circumstances is repugnant as a solution to our dairy problems.

As I mentioned earlier, it is incumbent on you to draw upon facts as basis for legislative recommendations. In this light, I suggest this Committee receive the following reports which provide factual dairy production and marketing information:

1. The 1982 Dairy Legislation: Impact on Six Southern States; Some Program Alternatives. Alabama Agricultural Experiment Station. Agr. Econ. Series 34. January, 1983.
2. Dairy Outlook and Situation. Economic Research Service. USDA. DS-392, March, 1983.
3. Milk Production, Disposition, Income, 1979-81. Statistical Reporting Service. USDA DA-1-2 (82). May, 1982.
4. Milk Production. Statistical Reporting Service. USDA. DA 1-1 (2-83) February 15, 1983.
5. Helmberger, Peter. "What To Do About The Milk Price," Economic Issues, No. 76. Dept. of Agri. Econ., College of Agricultural and

Life Sciences, University of Wisconsin, Madison. February, 1983.

6. Costs and Returns of Producing Milk in the United States, 1979, 1980 and Preliminary 1981. Economic Research Service. USDA. Prepared for the Committee on Agriculture, Nutrition and Forestry. United States Senate, 97th Congress, Second Session. July, 1982.

These reports which are both statistical and analytical contain information relevant to your decision process. I request they be entered in the hearing record.

In summary, the solution to the dairy surplus problem is found in cutting the support price, providing an economic formula for future adjustments in the support price and establishing a floor under Class I prices to protect local supplies for the fluid milk markets.

STATEMENT OF BUCKEY JONES, MEMBER, BOARD OF DIRECTORS, DAIRYMEN, INC.

MR. CHAIRMAN,

MY NAME IS BUCKEY JONES, I AM ON THE BOARD OF DIRECTORS OF DAIRYMEN, INC. FROM OUR GULF DIVISION. I OWN AND OPERATE A DAIRY FARM IN SMITHDALE, MISSISSIPPI AND CURRENTLY HAVE 215 HEAD ON DHIA TEST.

MR. CHAIRMAN, I HAVE BEEN IN THE DAIRY BUSINESS FOR QUITE A NUMBER OF YEARS AND FEEL WELL QUALIFIED TO SPEAK ABOUT THE PROBLEMS WHICH BESET THE DAIRY INDUSTRY. AS A MEMBER AND SPOKESMAN FOR DAIRYMEN, INC. I AM ABLE TO STATE THAT DI, AND ITS MEMBERS, ARE WELL AWARE THAT THIS NATION'S MILK SURPLUS IS APPROACHING SCANDALOUS PROPORTIONS; AND WE REALIZE THAT SOMETHING MUST BE DONE TO RECTIFY THIS PROBLEM. HOWEVER, DAIRYMEN, INC. IS STRONGLY OPPOSED TO THE IMPLEMEN- OF THE TAX OF 50 CENTS PER HUNDREDWEIGHT OF MILK PRODUCED ON AND AFTER APRIL 16, 1983. WE ARE EQUALLY OPPOSED TO THE IMPLEMENTATION OF THE SECOND 50 CENT ASSESSMENT WHICH THE SECRETARY WILL REVIEW IN AUGUST OF THIS YEAR.

WE BELIEVE THESE ASSESSMENTS ARE NOTHING MORE THAN TAXES; AND WE DO NOT BELIEVE WE DAIRY FARMERS SHOULD BE TAXED MORE THAN OTHER CITIZENS. WE ALSO OPPOSE EFFORTS TO ELIMINATE THE SURPLUSES BY SOMETHING NEW AND UNPROVEN, SUCH AS AN ASSESSMENT, BASE OR QUOTA PLAN. RATHER, WE STRONGLY SUPPORT LEGISLATION RESCINDING THE TAX AND MODIFYING THE DAIRY PRICE SUPPORT PROGRAM. IT WOULD BE A MORE RATIONAL AND SIMPLER APPROACH TO SOLVING THE SURPLUS PROBLEM.

LOWERING THE MILK PRICE SUPPORT $1.00 WILL ALSO DISCOURAGE SURPLUS MILK PRODUCTION AS DOES THE DOLLAR TAX. IT ALSO WOULD ENCOURAGE CONSUMPTION OF MORE DAIRY PRODUCTS BECAUSE PRICES CONSUMERS PAY FOR THESE PRODUCTS WOULD MOST LIKELY DECLINE. WITH THE LOWERING OF THE SUPPORT LEVEL, THE GOVERNMENT SHOULD

ALSO BUY FEWER SURPLUS DAIRY PRODUCTS AND THOSE WHICH IT DOES BUY WILL BE PURCHASED AT A LESSER PRICE.

THE SECRETARY OF AGRICULTURE RECENTLY POINTED OUT THAT THE DAIRY PRICE SUPPORT PROGRAM HAS FUNCTIONED VERY WELL SINCE ITS BEGINNING IN 1949. WHY SHOULD WE DRASTICALLY CHANGE A SUCCESSFUL PROGRAM WITH AN ASSESSMENT OR QUOTA PLAN?

THE DAIRY PRICE SUPPORT PROGRAM HAS EXECUTED ITS OBJECTIVE FOR MOST OF ITS HISTORY. NAMELY, IT HAS ATTRACTED AN ADEQUATE SUPPLY OF MILK FOR OUR COUNTRIES NEEDS, YET IT HAS PROTECTED AMERICA'S DAIRY FARMERS FROM THE TREMENDOUS IMPACT WHICH ONLY SMALL SURPLUSES OF MILK WOULD HAVE ON FARMER PRICES. FOR EXAMPLE, SMALL SURPLUSES CAN PLUMET PRICES TO UNREALISTICALLY LOW LEVELS AND LEAD TO RADICAL REDUCTIONS IN HERD SIZE.

ANOTHER REASON THAT WE IN THE SOUTH OPPOSE QUOTA PLANS IS THAT OUR AREA OF THE COUNTRY IS PRODUCING AN EVER SMALLER SHARE OF OUR COUNTRIES MILK SUPPLY AND YET IT IS ONE OF THE AREAS WHERE POPULATION IS GROWING.

EXHIBIT I (ATTACHED TO MY TESTIMONY), SHOWS "TOTAL SOUTHEAST PRODUCTION AS A PERCENT OF TOTAL U.S. PRODUCTION, 1973 AND 1982." HERE MILK PRODUCTION IN EACH OF THE SOUTHEASTERN STATES IS SHOWN AS A PERCENT OF TOTAL U.S. PRODUCTION DURING 1973 AND 1982. THE PERCENT OF TOTAL PRODUCTION IS HOLDING ITS OWN IN A FEW STATES BUT IS DROPPING SIGNIFICANTLY IN OTHERS. NOTE THE SIGNIFICANT DECLINE IN KENTUCKY, ALABAMA, MISSISSIPPI, AND LOUISIANA.

A BASE OR QUOTA PLAN ON TOP OF THE CURRENT ECONOMIC FACTORS WOULD MAKE THIS DECLINE A SERIOUS PROBLEM. IT MAKES MORE SENSE TO ENCOURAGE MILK PRODUCTION FOR FLUID DEMAND IN THE SOUTHEAST WHERE POPULATION IS GROWING.

THERE IS NO DOUBT THAT THE CURRENT MILK SURPLUSES ARE ENCOURAGE BY ABNORMALLY LOW FEED AND BEEF PRICES. WE ARE HOPEFUL THAT THE NEW PAYMENT-IN-KIND (PIK) PROGRAM WILL IM-

PROVE FEED PRICES WHICH WILL TEND TO DISCOURAGE MILK PRODUCTION.

ANOTHER ISSUE WHICH I WOULD LIKE TO DIRECT MY REMARKS IS THAT OF HOLDING CLASS I PRICES USED IN FEDERAL MILK ORDERS AT CURRENT LEVELS. NUMEROUS STUDIES DONE IN PAST YEARS HAVE SHOWN THAT LOWERING THE PRICE CONSUMERS PAY FOR FLUID MILK HAS RELATIVELY LITTLE EFFECT ON CONSUMPTION LEVELS. ON THE OTHER HAND, A REDUCTION IN CONSUMER PRICES FOR OTHER MANUFACTURED DAIRY PRODUCTS WILL SIGNIFICANTLY INCREASE CONSUMPTION.

ANOTHER REASON TO HOLD MINIMUM FLUID MILK PRICES CLOSE TO THEIR CURRENT LEVEL IS THAT MANY PARTS OF THE COUNTRY, PARTICULARLY IN MORE USUSAL TIMES, DO NOT PRODUCE ENOUGH FLUID MILK TO MEET DEMANDS. IN MUCH OF THE SOUTHEAST AND SOUTHWEST, MILK PRODUCTION IS INSUFFICIENT TO MEET FLUID DEMAND IN MONTHS WHEN PRODUCTION IS AT SEASONALLY LOW LEVELS. LOWERING CLASS I OR FLUID MILK PRICES IN THESE AREAS WOULD FURTHER ENCOURAGE A DECLINE IN LOCAL PRODUCTION. MILK WOULD HAVE TO BE IMPORTED HUNDREDS OF MILES TO FILL LOCAL DEMAND AND MILK IS RELATIVELY EXPENSIVE TO MOVE LONG DISTANCES. IT MAKES A GREAT DEAL MORE SENSE TO USE THE DOLLARS THAT IT COSTS TO IMPORT MILK TO ENCOURAGE LOCAL PRODUCTION.

CLASS I PRICES IN FEDERAL MILK ORDERS HAVE NOT BEEN ADJUSTED TO REFLECT CHANGES OVER THE YEARS IN THE HIGHER COSTS OF TRANSPORTING MILK. HISTORICALLY, CLASS I PRICES IN SOUTHERN MARKETS WERE BASED ON MILK PRICES IN THE HEAVY MILK PRODUCING AREAS OF THE UPPER MIDWEST, PLUS THE COST OF TRANSPORTING MILK. AS WE HAVE ALL KNOWN GASOLINE AND OTHER COSTS HAVE SKYROCKETED IN RECENT YEARS BUT CLASS I DIFFERENTIALS IN SOUTHERN MARKETS HAVE MOVED LITTLE IF AT ALL

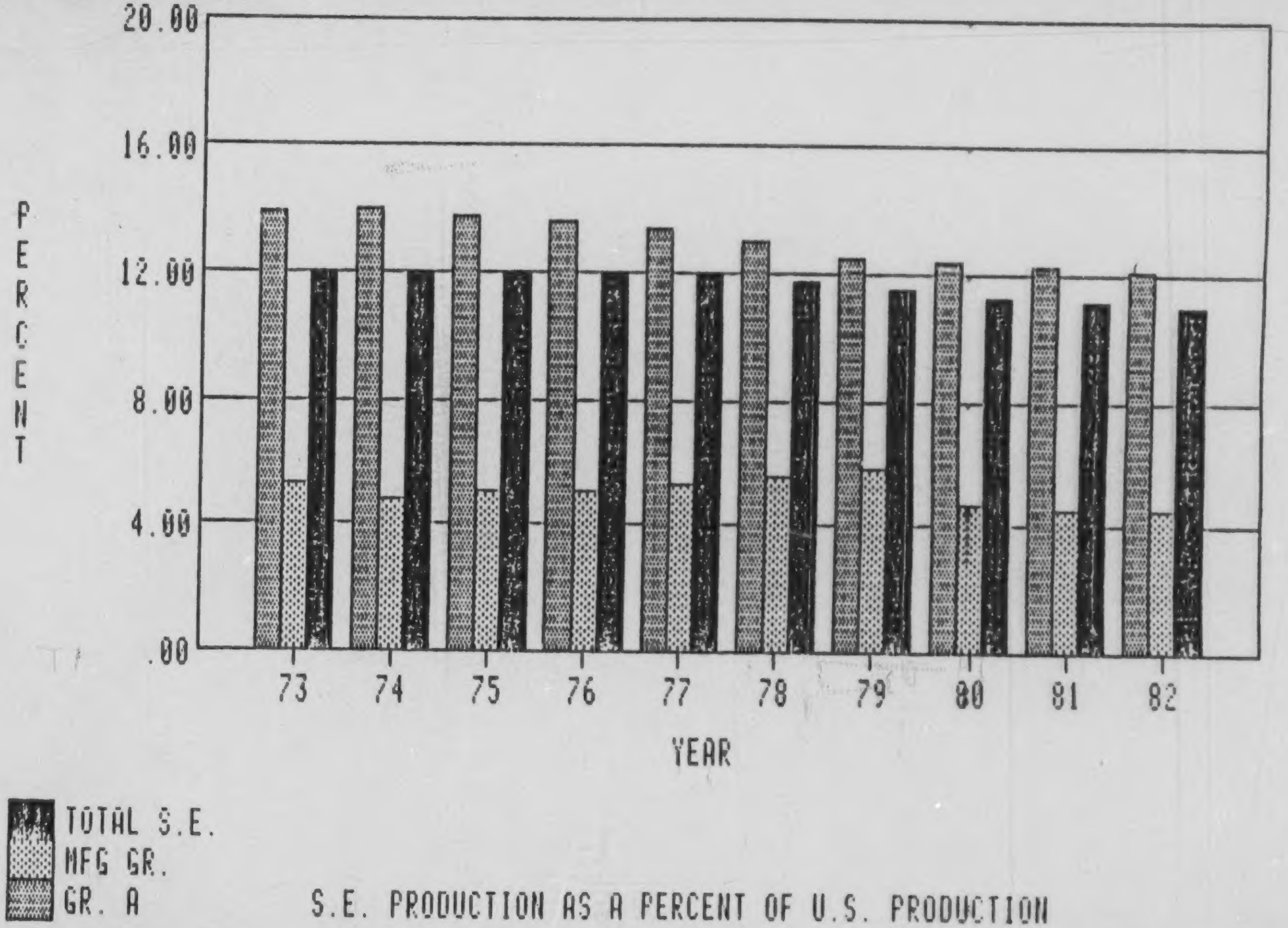
THERE ARE FEW AREAS OF THE COUNTRY WITHIN WHICH MILK PRICES ARE NOT SUBJECT TO PRICING UNDER FEDERAL ORDERS. FLUID PRICES IN THESE AREAS COULD BE HELD AT CURRENT LEVELS BY STATE REGULATION ORFARMERS IN THESE AREAS COULD PETITION

THE SECRETARY OF AGRICULTURE FOR A FEDERAL MILK ORDER.

I WOULD LIKE THE SUBCOMMITTEE TO INCLUDE IN THE RECORD THE DATA CONTAINED IN "COSTS AND RETURNS OF PRODUCING MILK IN THE UNITED STATES -- 1979, 1980 AND PRELIMINARY 1981" WHICH WAS PREPARED BY THE DEPARTMENT OF AGRICULTURE. IT SHOWS THAT THERE ARE SUBSTANTIAL DIFFERENCES IN DAIRY FARM RETURNS AND COSTS OF PRODUCTION AMONG REGIONS OF THE COUNTRY. WHILE DATA FOR MISSISSIPPI IS NOT INCLUDED IN THE PUBLICATION, MISSISSIPPI RETURNS AND COSTS ARE NOT TOO DIFFERENT FROM THOSE OF THE APPALACHION REGION. TOTAL RETURNS DURING 1981 FOR THE APPALACHIAN REGION WERE ONLY 70 CENTS PER HUNDREDWEIGHT OF MILK WHEREAS RETURNS IN THE UPPER MIDWEST WERE $2.43 AND RETURNS IN THE NORTHEAST WERE $2.31.

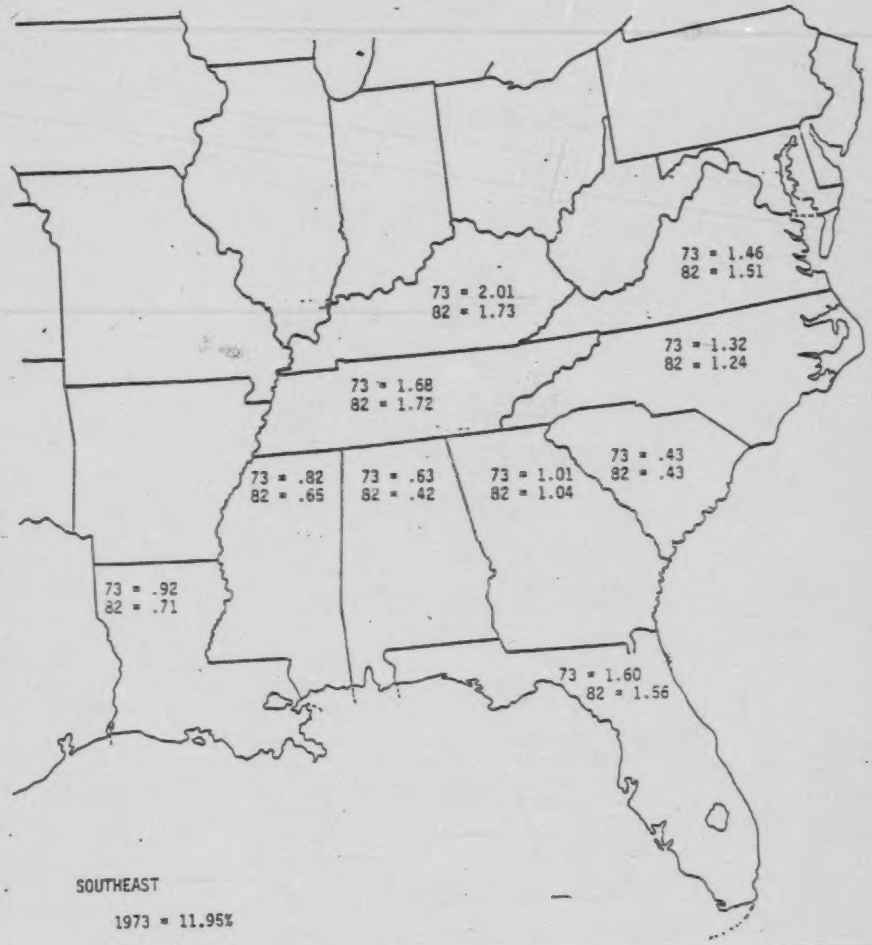
I WOULD ALSO LIKE TO ATTACH AS EXHIBIT II A COPY OF "IMPACT OF CHANGES IN SUPPORT PRICE ON U.S. MILK SUPPLIES AND UTILIZATION" WHICH WAS PREPARED BY DR. ALBERT ORTEGO AND JOHN SMITH WHO ARE ECONOMISTS WITH DAIRYMEN, INC. IT SHOWS THAT A DECREASE IN THE SUPPORT PRICE WILL RESULT IN A SIGNIFICANT INCREASE IN MILK CONSUMPTION AND DECREASE IN MILK PRODUCTION. IF THE SUBCOMMITTEE HAS ANY QESTIONS ON THE STUDY, DR. ORTEGO WILL BE GLAD TO SUPPLY ANSWERS.

I WOULD LIKE TO CONCLUDE MY COMMENTS BY STATING THAT THERE IS NO QUESTION THAT WE DO HAVE A SURPLUS PROBLEM AND THAT NO ONE LIKES THE TAX PROGRAM WHICH WAS PASSED BY CONGRESS LAST YEAR AS A PART OF THE BUDGET RECONCILIATION ACT. I THINK YOUR SUBCOMMITTEE IS TO BE COMMENDED FOR TAKING THE TIME AND EFFORT TO ONCE AGAIN LOOK AT POSSIBLE ALTERNATIVE SOLUTIONS TO OUR SURPLUS MILK PROBLEMS. BUT PLEASE, WHATEVER YOU DECIDE, IT IS CRITICAL THAT YOU KEEP IT SIMPLE SO THAT FARMERS, THE INDUSTRY AND THE PUBLIC UNDERSTAND IT.



S.E. PRODUCTION AS A PERCENT OF U.S. PRODUCTION

TOTAL SOUTHEAST PRODUCTION
AS A PERCENT OF TOTAL U.S. PRODUCTION
1973 AND 1982


73 = 2.01
82 = 1.73
73 = 1.46
82 = 1.51
73 = 1.32
82 = 1.24
73 = 1.68
82 = 1.72
73 = .43
82 = .43
73 = .82
82 = .65
73 = .63
82 = .42
73 = 1.01
82 = 1.04
73 = .92
82 = .71
73 = 1.60
82 = 1.56

SOUTHEAST

1973 = 11.95%

1982 = 11.00%

STATEMENT BY:
WILLIAM R. BOARDMAN
EXECUTIVE VICE PRESIDENT - DAIRY FARMERS, INC.
ORLANDO, FLORIDA

Mr. Chairman, members of the Sub-Committee.

I am William R. Boardman, executive vice president of Dairy Farmers, Inc., Orlando, Florida.

Dairy Farmers, Inc. is an association of the four cooperatives serving the dairy farmers in the state of Florida.

I am here to speak in favor of Senate Bill #658. The members of Dairy Farmers, Inc. believe that this Legislation, if passed, will accomplish two positive things. It will remove the assessment that is about to be implemented by the Secretary of Agriculture, and, it will lower the support price. In turn, these actions should increase sales of dairy products; lower production; and reduce cost to government.

It is our belief that the predicament that the dairy farming industry finds itself in today was created when the support price, rather than allowing the normal market process to continue, was frozen at $13.10. Since that time, even with increasing costs of production, the amount of milk available to the market has continued to outstrip commercial demand.

A solution must be developed to halt these growing costs to taxpayers, as well as the threat these costs pose to orderly marketing. We believe that in order to do this, the $1.00 potential assessment must be removed and the support price reduced at least $1.00 and the Secretary, if necessary, be given authority to reduce it an additional 50 cents. We are told that a reduction of $1.00 to the support price would not decrease CCC purchases, yet market history belies that contention.

In the past, the support price has been lowered significantly three times - in 1954, 1958, and 1962. On each of these occasions, the CCC purchases were reduced substantially.

FY 1954-1955...Support price was reduced 16 percent; CCC net removals dropped from the previous year's 11.3 billion pounds to 5.1 billion pounds - over a 50 percent reduction.

FY 1958-1959...Support price was reduced 6 percent; CCC net removals dropped from the previous year's 6.8 billion pounds to 3.5 billion pounds - over a 50 percent reduction.

FY 1962-1963...Support price decreased 8 percent; CCC net removals dropped from the previous year's 11.2 billion pounds to 8.8 billion pounds - over a 20 percent reduction.

We are suggesting a drop of approximately 8% in the support price. If marketing history repeats itself we should see a significant decline of government purchases in the first year.

Based on economic logic then, direct price support cuts are a superior alternative (for both producers and consumers) to the assessment program.

Under an assessment program, consumer prices remain constant. If so, no increase in consumption would occur. However, negotiated producer Class I prices to handlers may increase, resulting in higher consumer prices.

A decrease in the support price of $1.00 compared to a $1.00 assessment, would reduce manufactured product prices by about seven percent and should stimulate an increase in consumption of about three percent. Fluid consumption would also increase slightly, less than one percent if the support price was reduced by $1.00.

The impact of a $1.00 assessment on producer incomes would be similar to that of a $1.00 price reduction. However, income would be somewhat higher in the case of a price support cut, since the quantity of product needed for commercial consumpt[illegible] should increase.

CCC purchases and stocks would decline faster with a price reduction, since it would increase consumption and decrease production.

The major advantage of the assessment program is a reduction in government program costs. Benefits to consumers as taxpayers however, would be negligible. Benefits to consumers as users of milk would be zero, or even negative if negotiated Class I prices were increased following the implementation of the assessment.

It is hard to fault the dairy farmer alone for the surplus. Low feed and beef prices have provided no incentive to reduce production, despite the surplus. Some of the fault must be shouldered by Congress which established the support level on which the dairy farmer made his production decisions. It would then seem that it follows that Congress should take the responsibility of lowering the support price and assist the dairy farmer in redirecting his production decisions.

We believe that the people of this country, as well as the members of Congress, are not ready to accept a complicated formula of production "reduction incentive" that may or may not be a solution to the problem confronting the dairy farming industry. We are concerned that should such a program, because of its complexity, fail to lower production and increase sales, that our marketing system that has been developed over many years would be in jeopardy.

In conclusion, Mr. Chairman, we feel that Congress and the industry has a rare opportunity to take action by supporting Senate Bill 658 which will remove the assessment and lower the support price. This action will have a positive effect on most of the segments of society involved...it will lower the price to the consumer...it will, in due course, stabilize production...it will lower the cost to government...and it will return the dairy farming industry to a normal marketing condition.

STATEMENT

OF

BERNARD C. ZARDA, PRESIDENT

ZARDA BROTHERS DAIRY, INC.

SHAWNEE, KANSAS

Mr. Chairman, I appreciate the opportunity to address the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices. I am Bernard C. Zarda, President and Chairman of the Board of Zarda Brothers Dairy, Inc. We are a family owned dairy in Shawnee, Kansas, now in our 73rd year of operation. Zarda Brothers Dairy is a member of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers. We produce a full line of dairy products including milk, ice cream, cheese and have dairy stores through which we sell directly to the consumer.

In 1979, milk production and commercial demand for dairy products were in fairly good balance. That year, the government, on a milk equivalent basis, bought only one billion pounds of surplus dairy products which were used in feeding programs. Unfortunately, at that time legislation was enacted mandating a minimum support price level of 80% of parity and requiring semiannual adjustments. As a result, the support price took off. For fiscal year 1979, it jumped 10%, the next year, 16%, and there was another 14% increase in FY 1981.

The consequence of these rapidly escalating prices was not surprising. Milk production grew rapidly and commercial demand for dairy products stagnated. Government purchases of surplus dairy products hit an all time record of 12.7 billion pounds in 1981. The cost to taxpayers was also a new record, almost $2 billion. Before the 1980's, the milk support program had never cost more than $750 million in any one year.

The price support level has been at $13.10 since 1981 and the surplus milk production problem has continued to grow. Last year government purchases reached 13.8 billion pounds and so far this fiscal year, surplus sales to the government have been running at an alarming 22% faster clip then last year's record rate.

Next Saturday, the government plans to begin assessing the industry 50 cents per hundredweight and it is likely to increase to $1.00 next fall unless Congress acts. I do not think the assessment program is the answer to the industry's problems. The best solution is one that works to decrease the dairy surplus by not only decreasing production but also by increasing consumer demand. The 50 cent deduction program will do nothing to stimulate sales.

The assessment program should be eliminated before it begins and replaced with a reduction in the support price. The support price should be reduced $1.00 immediately. Also, the Secretary of Agriculture needs to be provided with the authority to reduce the price level an additional 50 cents next October if the surpluses persist and market conditions show this is necessary.

A $1.50 lower milk price will save consumers $1.8 billion a year, while simultaneously increasing dairy sales and decreasing the surplus.

Some people suggest that a whole new system of dairy bases, quotas and/or paid diversions be implemented. These systems are very complicated and would require more regulation and more bureaucracy. If there is one thing our economy does not need, this is it.

I urge that you avoid a whole new complicated regulatory morass and instead allow the support price to be set at a level that will move supply and demand into a more reasonable balance.

Thank you for this opportunity to present my views.

STATEMENT OF E. LINWOOD TIPTON, SENIOR VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND THE INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

I am E. Linwood Tipton, Senior Vice President of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers.

The Milk Industry Foundation is a trade association representing 350 processors and distributors of fluid milk and fluid milk products, including yogurts, cottage cheeses, sour creams, dips, dressings, eggnogs and other similar products. The member companies of the Association operate 800 plants and process about 75 percent of the total fluid milk processed, bottled and consumed in the United States.

The International Association of Ice Cream Manufacturers is a completely separate and autonomous organization representing ice cream manufacturers. Its 250 member companies operate 600 plants which manufacture about 80 percent of the total ice cream and related products consumed in the United States.

We are most pleased to appear before this subcommittee and provide our views on milk price support legislation. Despite changes to the program, which has held the same price level since October 1, 1980, milk production has continued to increase at a rapid pace and is now at an all-time high, while consumption of milk and dairy products is increasing only moderately. This combination of facts results in the government continuing to purchase huge amounts of surplus dairy products, at a substantial cost to the taxpayers.

The Commodity Credit Corporation (CCC) outlays for the Milk Price Support Program in FY 1983 will be between $2 and $2.5 billion. When interest costs for storing the burgeoning surpluses are added, the program will cost nearly $3.0 billion. We project that if no changes are made to the present program of $13.10 support price and if no assessment is collected, net CCC outlays over the next three fiscal years beginning in 1983 will be $2.4, $2.6 and $3.1 billion respectively. Interest costs will hover at $0.5

billion during each of those years making the program's total cost about $3 to $3.5 billion per year and for the three year period, a total of nearly $9.5 billion! Virtually everyone agrees this is intolerable and something must be done.

In addition to the budgetary costs, there is an additional burden placed on consumers because they are required to pay more than necessary for their dairy products. This, in turn, reduces consumption and not only exacerbates the surplus problem but also results in less ingestion of one of America's most nutritious products.

The continuing and expanding surplus is also harmful to our members in another rather insidious but nevertheless real way. The mounting surpluses have placed pressure on the government to dispose of the surplus commodities by giving them away in rather large quantities. These domestic giveaway programs either now or soon will amount to about 8 percent of commercial cheese sales and nearly 13 percent of commercial butter and nonfat dry milk sales. In our opinion, giving away surplus dairy products at these high levels is harming commercial sales. Although it may make sense from the standpoint of rotating inventory, it is not really reducing surpluses. The government buys new products which are displaced by the old products given away. The surpluses must be tackled by adjusting the support price level.

A $1.00 reduction in the support price would be about 9 cents per gallon of milk, 9 cents per pound of cheese, 11 cents per pound of butter, and 6 cents per pound of instant nonfat dry milk. For each $1.00 that milk support prices exceed the level necessary to provide an adequate supply, consumers are paying about $1.2 billion more than necessary per year for the dairy products they consume.

This, when added to government costs, amounts to about a $4.0 billion per year dairy subsidy program. That is about $15,000 per dairy farm in the United States.

Congress has now reviewed and made some modifications in the Price Support Program every six months during the last two years. (A chronology of those changes is appended to the Statement.) However, despite these attempts, the surpluses continue to mount. The time to act is now---the problem cries out for solution---that solution should, among other things, include a reduction in the level of milk support prices.

Our Position

Both the Milk Industry Foundation and the International Association of Ice Cream Manufacturers endorse the Milk Support Program as a reasonable and effective means of stabilizing milk production. Our concern, however, is that existing support price levels are above those needed to assure adequate supplies, are unnecessarily reducing consumption of milk and milk products, are resulting in giveaway programs which injure commercial sales, are unnecessarily costing consumers large sums of money, are creating in the minds of consumers an adverse image of the dairy industry and its products, and during a near crisis period of a "runaway budget," the Milk Price Support Program is adding to the deficit significantly.

Specifically, we support the elimination of the present assessment program and in its stead, immediately reduce the milk support price by $1.00 per hundredweight. However, our analysis indicates this may not be adequate to reduce milk production sufficiently to reasonably balance supply and demand. Therefore, we also support additional discretionary authority for the Secretary of Agriculture to reduce the support price by another 50 cents effective October 1, 1983 if it appears necessary. Quite frankly, in our opinion, it will be necessary unless there is a significant change in the economy or especially an increase in feed prices.

Such a program will reduce CCC purchases from the present 15.4 billion pound level to about 7.7 billion pounds in FY 1984 and to about 4.1 billion pounds in FY 1985. At that point, CCC net costs would be about $0.5 billion.

Alternative Programs

There are at least four categories of legislation now pending in Congress, i.e., removal of assessment and maintaining present support level; price reduction; modified price reduction (Barber Plan - maintain Class I price); and base, quota or paid diversion plan. We have appended to this Statement a table showing the impacts of many of these options and would like to highlight and summarize these briefly.

Support Price $13.10, No Assessment

1. Milk production will rise faster than commercial sales.

2. Commodity Credit Corporation purchases are estimated to reach 15.4 billion pounds in FY 1983 and 16.2 billion pounds in FY 1984; government costs, $2.4 billion and $2.6 billion, respectively.

3. Current law ties support back to parity in FY 1985. The minimum will rise to about $14.27. This will cause production to continue climbing, while retarding sales growth. Government purchases could reach 18.1 billion pounds and costs are expected to surpass $3 billion for the first time in history.

Support Price $13.10, 50 Cent Assessment Begins April 16, 1983, $1.00 Assessment Begins October 1, 1983

1. If the deduction program becomes effective, while it will do nothing to enhance commercial sales, it is expected to retard production and generate revenue.

2. Outlook is for purchases in FY 1983 to be 14.6 billion pounds.

3. FY 1984 production should be reduced and purchases dropped to 11.7 billion pounds.

4. Government purchases will cost $2.3 billion in FY 1983 and $1.8 billion in FY 1984. These will be offset by collections under the assessment program of $300 million and $1.2 billion, respectively. The net government costs of the program in FY 1983 would be $2 billion and in FY 1984, $600 million.

5. FY 1985, when the parity tie-in is scheduled to raise the support price to $14.27, production would turn upward again. Government purchase costs are estimated to be $2.1 billion, assessment will rebate $1.2 billion, for a net expenditure of $900 million.

Support Price $12.10 FY 1983 and 1984, 61 Percent of Parity FY 1985, Class I Prices Floored at Current Level

1. Another alternative is to decrease the support price to $12.10 and hold Class I or fluid milk prices at the current level. About 40 percent of the milk supply is sold as fluid milk drinks, so the impact of this program is only 60 percent of the impact of an across the board price reduction.

2. This proposal will retard the growth in production some, but the outlook for further gains this year and next remains. CCC purchases will run about 14 billion pounds this year, and 12.9 billion pounds next, with costs at about $2 billion a year.

3. This proposal provides for a minimum support level at 61 percent of parity on October 1, 1984. Consequently, the support price would rise to about $13.62, an increase of $1.52. In response to this price increase, production would climb and CCC purchases could reach 14 billion pounds in FY 1985.

Support Price $12.10

1. With a $1.00 decrease in the support price, production is expected to decrease in FY 1984 and even more in FY 1985.

2. Commercial sales would be stimulated due to a price reduction and the surplus would contract. Government purchases are expected to drop to about 8.3 billion pounds by FY 1985, and the costs down to $1.1 billion.

Support Price $12.10 on April 1, 1983, $11.60 on October 1, 1983

1. A $1.50 decrease in the support price by October 1983 would cause production to begin to drop significantly in FY 1984 and even more in FY 1985.

2. Commercial sales would be enhanced.

3. With purchases of 7.7 billion pounds and 4 billion pounds, respectively, government costs are estimated to drop to $1 billion in FY 1984 and $500 million in FY 1985.

4. By the end of FY 1985, supply and demand would be in fairly good balance.

Clearly, an immediate $1.00 reduction in the support price with authority for another 50 cent reduction later is most likely to solve the surplus milk problem. It not only reduces production, but also increases consumption substantially.

Some claim that when the support price was reduced in the past, it did not reduce milk production with the inference that it did not reduce government purchases either. They argue that the Administration's proposed price decrease will not have the desired effect this time either. The plain facts are that this is simply not the case.

In the past, the support price has been lowered significantly three times, in 1954, 1958, and 1962. On each of these occasions, the CCC purchases were reduced substantially.

- FY 1954-1955 -- Support price decreased 16 percent, CCC net removals dropped from the prior year's 11.3 billion pounds to 5.1 billion pounds---over a 50 percent reduction.

- FY 1958-1959 -- Support price decreased 6 percent, CCC net removals dropped from the prior year's 6.8 billion pounds to 3.5 billion pounds---over a 50 percent reduction.

- FY 1962-1963 -- Support price decreased 8 percent, CCC net removals dropped from the prior year's 11.2 billion pounds to 8.8 billion pounds---over a 20 percent reduction.

It is true that the decreases in milk production were not as large as might have been expected. However, one must look behind the surface numbers to really understand what happened. The fact is that the actual decline in prices received by farmers was much less than the drop in support prices.

- FY 1954-1955 -- The 16 percent drop in support prices was accompanied by a 6 percent drop in manufacturing milk prices and the average price received by all farmers for all milk also dropped only 7 percent.

- FY 1958-1959 -- The 6 percent drop in support prices was accompanied by a 4 percent reduction in manufacturing milk prices and the average price received by all farmers for all milk declined only 2 percent.

- FY 1962-1963 -- The 8 percent decline in milk support prices was reflected by a 6 percent drop in manufacturing milk prices and only a 3 percent decline in the average price paid farmers for all milk.

It is not surprising that milk production didn't decrease as much as anticipated. During each of those periods, most of the Class I or bottling milk under federal orders experienced minimal price declines. The Class I prices were not directly related to the support price. So, the full effect of a drop in support prices was not felt by dairy farmers.

Today, most prices in federal as well as state orders are tied directly to manufacturing milk prices and the support price. Therefore, the full effect of the price support reduction will be realized unless H.R.1604, the Fowler et al, bill is adopted. That bill would prevent a decrease in Class I (fluid milk) prices. About 40 percent of the milk supply is consumed as fluid beverage products, so on the average across the country, only 60 percent of the support price decrease would be reflected in producer and consumer prices.

In any event, even in those earlier periods, CCC acquisition were decreased significantly when the support price was dropped. We are opposed to the various base and quota plans which have been discussed. Basically, they are artificial devices to restrict milk supplies below the level that would normally be produced at the prices being paid. Thus, they are by definition unnecessarily inflationary and after a short period create severe inefficiencies because they distort the allocation of resources. Those dairy farmers who have an established base receive some government given right to produce milk, although dairy farmers in other areas of the country may develop significant cost comparative advantages, and therefore, could produce the milk more efficiently.

The Demand Side

The second way to reduce the surplus is to increase consumption. There are three basic approaches to increasing consumption which are being discussed.

- Increased advertising and promotion of dairy products.
- Increasing the total milk solids requirements for whole, lowfat, and skim milk.
- Increased sales through government feeding programs.

The Foundation and the International believe there is an unmistakable and undeniable opportunity---and an obvious need---to increase sales of dairy products through improved and coordinated advertising. However, before rushing down the road of more nonbranded or generic advertising, milk processors and ice cream manufacturers believe greater emphasis must be placed on branded advertising and promotion. In our opinion, nonbranded advertising programs can be only marginally successful without the full support of a simultaneous branded program.

Nonbranded advertising is designed to promote product benefits common to all brands. However, it is the branded item that is actually purchased by the consumer and through that branded product, the benefits of the product are actually realized.

Unfortunately, the highly competitive nature of the fluid milk and ice cream industries has limited the availability of company branded advertising. Also, many of our members believe the nonbranded advertising has often made it difficult to justify branded advertising expenditures, because the nonbranded programs make it sound as if the benefits are the same for all milk. Therefore, it is difficult to establish benefits in the minds of consumers for one brand compared to another.

The Milk Industry Foundation and International Association of Ice Cream Manufacturers support expanded advertising and promotion of dairy products, but believe it should be a program which encompasses branded advertising.

Fluid Milk Standards

Under federal standards of identity, as well as comparable regulations in each of the states, whole, lowfat and skim milks must meet specific milkfat and nonfat solids standards. There has been some discussion of increasing these fluid milks minimums to help alleviate the oversupply problem. Specifically, proponents of this want the federal total milk solids requirements raised to the California level. For a number of reasons, we believe this alternative can play virtually no role in relieving the current oversupply problem. Therefore, we oppose increasing the minimum milkfat and nonfat solids standards for fluid milk as a means of reducing milk surpluses.

Some contend that a higher nonfat solids content will increase product quality and therefore product sales. Others feel the higher costs associated with the additional solids (e.g., up to 17 cents per gallon on lowfat milk) may have an overriding detrimental effect on fluid milk sales, particularly in low income areas. The Foundation's Board believes this is a matter which requires more study than has been possible to date.

For a number of reasons, it would take a considerable amount of time to implement a national change in fluid milk standards. The associated regulatory changes would have to go through the Federal Food and Drug Administration's public amendment process. Since federal changes would only apply to milk moved interstate, each state would have to adopt the standards on its own so that the changes apply to milk bottled and sold within the state, as well. Also a whole new complicated nationwide component pricing mechanism would have to be implemented.

When the higher solids levels were implemented in California, they simultaneously began testing all farmers' milk for both milkfat and nonfat solids content and began adjusting the price as each component varied. In most of the other markets across the country, individual farmers' milk is not tested for nonfat solids content. Nor is the price adjusted for milk of low or high solids content. This would have to be changed.

For all these reasons, we oppose increasing the required amount of milkfat and nonfat solids in fluid milks in an attempt to remedy the surplus milk problem.

Establishing the Children's Surplus Milk Program

We urge the Congress to provide authority for the Secretary of Agriculture to establish the "Children's Surplus Milk Program." The program should provide authority for the Commodity Credit Corporation to partially reimburse the appropriate state school jurisdiction for the cost of purchasing fluid milk, lowfat, or skim milk in schools for serving at times other than mealtime.

The partial reimbursement would be provided from funds the CCC would otherwise have expended to purchase the surplus dairy products under the milk support program due to the reduction in the funding for the Special Milk Program. We estimate that the reduction in funding for the Special Milk Program has increased CCC expenditures by about $100 million.

We would also propose a self-destruct provision so that if CCC purchases fall below 3 billion pounds milk equivalent, the "Children's Surplus Milk Program" would be discontinued.

The recent reduction in the Special Milk Program, in our opinion, has increased CCC purchases rather substantially. The program was funded at $119.8 million in FY 1981 and served the equivalent of 8.4 million hundredweight of milk. The funding was reduced in FY 1982 by $96 million and 1.2 million hundredweight of milk was served at this reduced level. School milk consumption declines tend to be about three-fourths the size of the program reduction. Consequently, total fluid milk consumption was decreased by about 1 percent. This added to the surplus the government had to buy by over 1 percent.

The government has no reasonable prospect of commercial sale of CCC owned dairy products. Savings from the Special Milk Program are entirely offset by the increase in surplus removal caused by the reduction in the Special Milk Program.

When CCC purchase, storage, transportation, and interests costs are considered, there is a net increase in cost to the government of $22 million due to the reduction in the Special Milk Program. And, such a comparison included no measure of the nutritional and other values of consumption by our nation's school children compared to the product, sitting in storage and deteriorating.

	(mil $)
Special Milk Program reduction	95.90
CCC Dairy Program purchases: 5.3 mil cwt at $15.97	85.15
Storage and transporation cost: $0.86/cwt per year for two years	12.21
Interest cost: two years at 12.25 percent	20.86
Cost of CCC	118.22
Net Savings from program reduction (95.90 - 118.22)	-22.32

This appraisal would be very different, however, if there were commercial or other high value uses for surplus milk. If the products sold for more than $22.32 million, there would be some savings from the program reduction. With the large surplus now held by the government, this is not the case. The government is looking for ways to give the surplus away.

It is quite expensive to manufacture butter, cheese, and nonfat dry milk from whole milk. If the product is to be donated at a loss eventually, is it not cheaper and wiser to direct it to a productive use before converting it to manufactured products and before paying storage and other costs to maintain it?

We urge the adoption of a "Children's Surplus Milk Program." We also urge the expanded use of dairy products including cottage cheese, sour cream and yogurt in food distribution programs operated by the government. Only small quantities of these products are currently used in school feeding programs and we believe their utilization could be expanded significantly. This could be accomplished by reimbursing the schools or other appropriate institutions for some of the cost of adding these products to their menus. Also, most schools and other institutions currently have available to them all the free butter, powder, and cheese they can use. This would expand the use of other dairy products through such outlets, reduce CCC purchase of surplus milk and thus reduce government spending.

Summary

We favor:

- A reduction in the milk support price.
- An increase in branded milk promotion and advertising.
- The use of CCC funds to partially reimburse institutions to increase the utilization of milk, lowfat milk, skim milk, cottage cheese, lowfat cottage cheese, yogurt, ice cream and other dairy products whereby so doing the net cost to the government is reduced.

We oppose:

- The use of bases and/or quotas to reduce milk production and increase milk prices.
- Increasing the minimum total solids content of fluid milk beverages until further study and analysis show it will in fact increase milk consumption.

Executive Offices

MILK INDUSTRY FOUNDATION • INTERNATIONAL ASSOCIATION OF ICE CREAM MFRS.

BRIEF HISTORY OF THE DAIRY SURPLUS PROBLEM

Congress is now considering for the fifth time in two years the subject of what to do about the enormous dairy surplus problem. There are many contributing factors to this, but the main cause is that the price support level is too high. The following chronology explains the activities of this program over the last six years.

1977 - Congress set the price of the milk support level at eighty percent of parity with semiannual adjustments in the 1977 farm bill.

1979 - Congress extended the eighty percent of parity with semiannual adjustments even though there were indications that this support level was too high and that a surplus of dairy commodities could be developing. Due to the low cost of feed grain and the high support level, there was a great economic incentive to produce milk.

1980 - Dairy surpluses continue to increase as the support level went to $13.10 on October 1, 1980, which is a sixty-one percent increase from $8.13, which it was on September 30, 1976.

April 1, 1981 - Congress rescinds April 1 mandated price increase. President Reagan signs the bill in hospital, one day after an assassination attempt on his life.

October 1, 1981 - Congress established a price support floor of $13.10. This was the first time Congress moved away from the parity index and the first time the support level went below seventy-five percent of parity since the support program was instituted in 1949.

April 1982 - Congress, in the Budget Reconciliation Act, froze the support level at $13.10 and authorized the U.S. Department of Agriculture to assess the dairy producers for milk produced. The effective date of this assessment was October 1, 1982 and USDA put the first fifty cent assessment on milk produced after December 1, 1982. USDA was authorized to put a second fifty cent assessment on producers April 1, 1983 if the production of milk was not reduced. The first fifty cent assessment, scheduled for December 1, 1982, has been enjoined by the courts in South Carolina and has not been effectuated. USDA has issued proposed regulations which will impose a $1.00 assessment effective April 1, 1983. Other court cases are now pending as to the constitutionality of the action by Congress. The budget savings anticipated by this action is not being realized and although the President's 1984 budget claims a $900 million reimbursement from the assessment in 1983 and another $1.4 billion in 1984, the assessment will not be collected from 1983 and probably not for 1984. This will then cost the government $2.5 billion for dairy. USDA institutes domestic giveaway programs of surplus cheese, butter and now nonfat dry milk as a means of reducing the surplus.

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The following table compares the amount of dairy surplus commodities given away at the domestic level with the commercial sales for fiscal year 1982.

	Donated Commodities (million pounds)	Commercial Sales (million pounds)	Percentage of Sales Represented by Giveaway
Cheese	302.1	4,099.9	7.4
Butter	117.5	896.2	13.1
Nonfat Dry Milk	54.9	437.6	12.5

March 1983 - Congress expected to consider legislation to reduce government cost to dairy price support program. Legislation is also being considered to sell surplus dairy products on the world markets.

MIF AND IAICM POSITION

MIF and IAICM believe that the only solution to this problem is a reduction in the price - one of the largest contributing factors. A price reduction will not only reduce production but will be a great assistance towards increasing the consumption of milk, thus reducing the amount the government must purchase. We believe that the giveaway programs are complicating the problem even more.

Summary of Impact of Milk Support Price Legislation

FISCAL YEAR 1983 OCTOBER '82 - SEPTEMBER '83

Support Price	$13.10	$13.10 & $.50 Assessment begins 4/16/83	$13.10/$12.10 no change in Class I Price (Barber Plan)	$13.10/$12.10	
Change in Production	+3.2%	+2.6%	+2.6%	+2.1%	Same as prior column
Change in Commercial Use	+1.2%	+1.2%	+1.7%	+2.1%	
CCC Purchases - bil lbs	15.4	14.6	14.0	12.8	
CCC Net Purchase Cost	$2.4 bil	$2.3 bil	$2.1 bil	$1.9 bil	
Assessment		$0.3 bil			
Net Government Cost		$2.0 bil			

FISCAL YEAR 1984

Support Price	$13.10	$13.10 & $1 assessment	$12.10	$12.10	$11.60
Change in Production	+1.5%	-1.2%	+0.5%	-0.2%	-1.2%
Change in Commercial Use	+1.5%	+1.5%	+1.9%	+2.4%	+3.2%
CCC Purchases - bil lbs	16.2	11.7	12.9	10.1	7.7
CCC Net Purchase Cost	$2.6 bil	$1.8 bil	$1.9 bil	$1.4 bil	$1.0 bil
Assessment		$1.2 bil			
Net Government Cost		$0.6 bil			

FISCAL YEAR 1985

Support Price	$14.27	$14.27 & $1 assessment	$13.62	$12.10	$11.60
Change in Production	+1.5%	+0.5%	+1.0%	-0.5%	-1.8%
Change in Commercial Use	+0.2%	+0.2%	+0.3%	+0.9%	+0.1%
CCC Purchases - bil lbs	18.1	12.2	13.9	8.3	4.1
CCC Net Purchase Cost	$3.1 bil	$2.1 bil	$2.3 bil	$1.1 bil	$0.5 bil
Assessment		$1.2 bil			
Net Government Cost		$0.9 bil			

IMPACT OF MILK SUPPORT PRICE LEGISLATION
FISCAL YEAR 1983 OCTOBER '82 - SEPTEMBER '83

Support Price	$13.10		$13.10 & $.50 assessment begins 4/16/83		$13.10/$12.10 No change in Class I price (Barber Plan)		$13.10/$12.10		
Milk Production Bil lbs - % change	138.6	+3.2	137.9	+2.6	137.9	+2.6	137.1	+2.1	same
Number of Cows - % change		+1.2		+0.8		+0.8		+0.5	as
Milk per Cow - % change		+2.0		+1.8		+1.8		+1.6	prior
Commercial Use Bil lbs - % change	123.0	+1.2	123.0	+1.2	123.6	+1.7	124.1	+2.1	column
CCC Purchases Bil lbs	15.4		14.6		14.0		12.8		
CCC Net Purchase Cost	$2.4 bil		$2.3 bil		$2.1 bil		$1.9 bil		
Assessment			$0.3 bil						
Net Government Cost			$2.0 bil						

FISCAL YEAR 1984

Support Price	$13.10		$13.10 & $1 assessment		$12.10		$12.10		$11.60	
Milk Production Bil lbs - % change	140.7	+1.5	136.2	-1.2	138.5	+0.5	136.8	-0.2	135.5	-1.2
Number of Cows - % change		+0.5		-2.0		-0.5		-1.0		-2.0
Milk per Cow - % change		+1.0		+0.8		+0.9		+0.8		+0.8
Commercial Use Bil lbs - % change	124.8	+1.5	124.8	+1.5	125.9	+1.9	127.0	+2.4	128.0	+3.2
CCC Purchases Bil lbs	16.2		11.7		12.9		10.1		7.7	
CCC Net Purchase Cost	$2.6 bil		$1.8 bil		$1.9 bil		$1.4 bil		$1.0 bil	
Assessment			$1.2 bil							
Net Government Cost			$0.6 bil							

FISCAL YEAR 1985

Support Price	$14.27		$14.27 & $1 assessment		$13.62		$12.10		$11.60	
Milk Production Bil lbs - % change	142.8	+1.5	136.9	+0.5	139.9	+1.0	136.1	-0.5	133.1	-1.8
Number of Cows - % change		+0.5		-0.5		+0.2		-1.0		-2.0
Milk per Cow - % change		+1.0		+1.0		+0.8		+0.5		+0.3
Commercial Use Bil lbs - % change	125.1	+0.2	125.1	+0.2	126.3	+0.3	128.2	+0.9	129.3	+1.0
CCC Purchases Bil lbs	18.1		12.2		13.9		8.3		4.1	
CCC Net Purchase Cost	$3.1 bil		$2.1 bil		$2.3 bil		$1.1 bil		$0.5 bil	
Assessment			$1.2 bil							
Net Government Cost			$0.9 bil							

Percent changes are from prior year.

STATEMENT OF STEVE CONERLY, PRESIDENT, PET INCORPORATED, DAIRY DIVISION, JOHNSON CITY, TENN.

Mr. Chairman, my name is Steve G. Conerly. I am President of the Dairy Division of Pet, Inc. in Johnson City, Tennessee. We operate numerous dairies in ten southeastern states including the states of Alabama, Florida and Kentucky, whose Senators serve on the Agriculture Committee. We sell about 17% of the total dairy products, including milk, ice cream and cultured items, consumed in the southeastern United States. Pet is a member of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers and I am the Secretary of IAICM.

Next Saturday, the government plans to begin assessing the industry 50 cents per hundredweight to help pay for the Milk Support Program. I think this came about because the industry has been unwilling to come to grip with the problem itself. Therefore, the government has decided to solve its primary problem, paying for the program. But even if the assessment reduces the program's burden on the United States Treasury, the problem of dairy surpluses will continue to plague the industry.

The assessment program, in my view, has one critical flaw. It does nothing to enhance dairy sales. Efforts must be made and actions must be taken which will improve the dairy sales picture. I think anyone truly interested in the long run interest of the industry will endorse these efforts. There are a number of things which can be done to help.

First off, a national advertising program could go a long way to increase demand. The industry's competitors selling other foods greatly out advertise us. In effect, they are shouting about their products while we are whispering about ours. This is due, unfortunately, to the fact that the highly competitive nature of the fluid milk and dairy products industry does not allow for much advertising. National advertising legislation should be enacted. It is very important that this legislation provide for branded, as well as generic or non-branded advertising. The effectiveness of the program can be greatly enhanced by a coordinated effort which takes advantage of the advertising and marketing skills already within the companies.

Another way to improve dairy sales is the "Children's Surplus Milk Program." During the 1981 budget battle, funds for the Special Milk Program were greatly reduced. As a result, school milk sales fell dramatically last year. This exacerbated the dairy surplus problem. The money the government hoped to save by not subsidizing milk purchases by school children ended up being spent on additional surplus dairy purchases under the Milk Support Program. In the end, little if any money was saved and the only significant consequences were a loss of nutrition for school children and a larger mountain of dairy surpluses to burden the government.

I ask the Congress to implement the Children's Surplus Milk Program as proposed by the Milk Industry Foundation. It would authorize the Commodity Credit Corporation to use the funds it is now spending to purchase the additional dairy surplus, which is the result of lower school sales, to subsidize the purchase of milk in schools. The program would operate in the same manner that the Special Milk Program used to. Once dairy surpluses subsided, the program could be phased out.

The mountain of dairy surpluses has begun to be self-sustaining. Faced with enormous stocks, the government has to decide to implement a national nonfat dry milk giveaway program. We are very concerned that this giveaway program will have a detrimental impact on commercial fluid milk sales. This, of course, would increase the surplus and enhance the dairy problem. It is my opinion that this program could be counter productive to the overall problems of the industry.

Unfortunately, while the Children's Surplus Milk Program and national advertising legislation will help with the surplus problem, they alone will not be enough to get us out of the current mess. The fact is that the present support price level is just generating too much milk. It needs to be reduced $1.00 immediately. A lower support price will decrease milk production while at the same time enhancing dairy sales. Government surplus purchases and the cost to taxpayers will be lessened. With the current level of budget deficits, the government simply cannot afford to continue financing the program at its present level.

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee and present my views.

STATEMENT OF NATIONAL INDEPENDENT DAIRY-FOODS ASSOCIATION PRESENTED BY DONALD A. RANDALL, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL

The National Independent Dairy-Foods Association (NIDA) is the trade association of independent dairy processors, distributors, and manufacturers of all varieties of dairy products. We are the largest organization of independent proprietary dairy processors with a nationwide membership. Members are predominantly small businesses and many are family owned. Our members are an essential link in the industry. We provide the markets for the fluid milk produced by thousands of dairy farmers, whether they market independently or through their cooperatives.

NIDA members compete in the sale of their products with national processors, chains, and large regional cooperative processors. It is essential that our members have access to continuing supplies of fresh fluid milk which are priced reasonably, fairly, and uniformly to all processors, so as to allow for wholesome competition in the marketplace, and to assure efficient farmer producers an adequate return on their invested capital and labor. NIDA opposes the continuation of unrealistically high support prices which artificially inflate our fluid milk prices throughout every federal and state market area. We urge Congress to face the reality that milk is a huge surplus commodity. It is a growing burden, not only on our taxpayers, but on the entire marketing system. Support prices must be substantially lowered.

NIDA URGENTLY REQUESTS THIS SUBCOMMITTEE TO APPROVE AUTHORIZING LEGISLATION TO MAKE AN IMMEDIATE REDUCTION OF $1.00 PER CWT IN THE SUPPORT PRICE FOR MILK AND TO PROVIDE THE SECRETARY OF AGRICULTURE WITH THE OPTION TO FURTHER REDUCE THE SUPPORT PRICE TO A MAXIMUM OF AN ADDITIONAL $1.00 PER CWT if surpluses exceed 4 billion pounds in any twelve month period. Any bill such as S.498 which will simply eliminate the assessments should not be enacted without replacing them with a substantial price reduction.

Our members believe that in past legislation and in most of the current proposals before this Subcommittee, there is a failure to face up to the fact that the vast amount of excess milk has a drastically lower value. The only way that the true value of the surplus milk can be established is to reduce the support price. As long as the producers are insulated from the reality of the actual value of the milk which they are producing beyond commercial sales and a reasonable reserve, they will continue to over-produce. NIDA opposes incentives to over-produce. NIDA opposes payments to producers not to over-produce milk. Those producers knew or should have known, that their increased milk production had no market at the time they increased production. Dairy farmers, like small businessmen, must be held accountable for over-production mistakes. They must meet the standard of reasonable and prudent decision making. NIDA opposes requirements for producers to surrender their freedom to a huge bureaucratic system run by cooperative-appointed milk boards and administered by USDA. NIDA opposes two-tiered pricing, production quotas, penalties or assessments. Such proposals are not in the best interest of dairy farmers, processors, distributors, manufacturers, and consumers.

NIDA favors simple changes in the law which will accomplish the objective of lowering the support price. NIDA also urges this subcommittee and the Congress to amend, change, and modify the Agricultural Marketing Act specifically 7 U.S.C. 608C to remove artificial barriers to the realistic pricing of milk and fat, and to bar discriminatory pricing, predatory practices, and premium-over-order pricing. Congress must make sure that the benefits of a lower support price reach consumers. It must take legislative steps to end monopoly power over supply markets which allow certain cooperatives to impose higher premiums even when support prices are lowered. Several giant regional cooperatives have such excessive market power over fluid milk supplies that they are able to unilaterally impose over-order premium prices, and are doing so regularly in this unprecedented surplus market. These premium prices do not go back to the farmer producers, instead they are used by the cooperatives' management to offset the inefficient and over-built processing facilities. We believe that excessively high support prices encourage the need to build over-capacity by the cooperatives to handle over-production. Low cost loans finance the over-capacity. The dairy products resulting have no market except the CCC.

Congress should make every attempt to restore and promote fair competition in the dairy industry. It is the fair competitive marketplace which will eliminate many of the causes of the over-production. Ultimately supply and demand are the only powerful forces which will bring production under control.

NIDA notes that a number of new bills have been introduced and some of them seek to revive the "all powerful" dairy boards that were totally discredited and rejected last year by the Senate, and in conference. For example, H.R.23, contains many of those provisions that were so dangerous to the economic independence of dairy farmers and processors. The bill calls for a restrictive base system, an arbitrary percentage reduction of production, and of course, the always present assessments on producers for excessive marketing. All of this would require a complex bureaucracy and enforcement system. It provides for the usual collection by handlers who must maintain records and be subject to inspections and penalties for violations of a host of new regulations. Again, this bill, as similar bills considered last year, provides for a National Dairy Advisory Board of fifteen members who would be appointed by the Secretary only from recommendations of appointees from certified producer cooperatives. The main standard for certification is the size of the cooperative in members and area. This appears to be in the bill to assure that the super regional cooperatives will be able to dominate the advisory duties of the Board.

A similar dairy board created by the proposal in another bill (H.R.696) would have power to determine price support levels and rates of reduction. It would also be controlled by the large producer organizations and control the disposal of surplus dairy products domestically and in foreign trade. These sweeping proposals were rejected last year as Congress wisely chose to avoid granting such power beyond its own or the Secretary's control.

The dairy products promotion boards called for in several bills (H.R.22 and H.R.23) are not in the best interests of processors and manufacturers as they are proposed. They would be controlled by producer organizations and block voting would be permitted in any case where the approval of producers is required. These boards through the power granted them and the Secretary, could seriously interfere in the proprietary dairy processors' business.

NIDA does not oppose the national promotion of milk and dairy products. The promotion of milk and dairy products, generally, if financed and administered fairly would have a positive effect. If some way could be found to fairly promote brand names it would even be more effective. The problem NIDA sees in some of these proposals is that of excessive control vested in the hands of large producer organizations over the administration of these boards and the promotional activities. If Congress establishes these dairy boards we feel that it is essential that independent farmers and independent proprietary dairies be represented. Business interfering regulations and orders should be kept at a minimum.

Any new legislation by this Congress should take into consideration the possibilities of large market disruptions by give away surplus programs, and the drastic lowering of the values of privately held cheese and dairy products inventories. Every effort should be made to provide the needed protection against sudden market changes which cause unnecessary losses .

A clear public interest standard must be placed in the new dairy legislation. USDA must be required to weigh the public interest and the dairy farmer interest.

STATEMENT OF JOHN BENJAMIN CARROLL, ON BEHALF OF DAIRY FARMERS DISTRIBUTORS OF AMERICA, INC.

I am JOHN BENJAMIN CARROLL of 611 Onondaga Plaza, 217 South Salina Street, Syracuse, New York 13202. My telephone number is (315) 474-5356.

For twenty years approximately I have been general counsel for the Dairy Farmer Distributors of America, Inc. This organization is composed of farmers who process and distribute milk of their own production direct to the consuming public in the various states of the United States.

We are the chief spokesman on behalf of producer-handlers of milk. We obtained considerable experience and expertise in the field of producer-handler economic way of life and the effects of the inter-relation with this way of life with the regulatory activities of the Congress of the United States.

We support an immediate repeal, without conditions, or alternate program of the deduction tax. As an alternative we desire an exemption from the price support requirements.

It is respectfully submitted that this exemption rationale applying to producer-handler exemption from milk marketing orders be applied to the price support program.

The reasons are:

(1) Only 1% or less of milk is marketed by the producer.

(2) Administrative expense and difficulty exceeds any benefit to the program.

(3) Producer-handlers are almost always non surplus operations.

(4) Unequal regulation exists if a producer-handler has to pay or be regulated while his handler competition is unregulated.

(5) Regulation is peculiarly destructive of this way of life, the anticipated loss being 90%.

(6) Farmers need this avenue of marketing kept open.

(7) Regulation's uniformed by destruction of the producer-handler.

This Congress, in passing the last amendment to the Federal Milk Marketing Order Program, expressed an intent to preserve a exemption from the orders for producer-handlers.

To be consistent with this legislative policy and intent, a similar exemption should be passed into law as part of any legislation that moves from this Committee and that exemption should be extended to the onerous deduction tax, which when applied to producer-handlers eliminates the industry.

Our studies indicate that less than 7% of the industry can survive the deduction. This valuable and important way of life will be totally lost along with the capital investments of its innocent operators.

Because of the disastrous effects that this deduction has upon producer-handlers, the Dairy Farmer Distributors of America, Inc. has spearheaded a current opposition to the deduction tax.

We were the first to object, the first to litigate, and at the present time, in terms of the litigation, are still in the forefront.

These positions, and others, have been taken in the Northern District of New York in the case of Mulroy v. Block and in South Carolina v. Block, at Columbia, South Carolina, and in supportive proceedings by the Cache Valley Producers Association of Logan, Utah, and Court suits brought both in the State of Idaho and the State of Utah.

As indicated, I think it is safe to say that the producer-handler opposition of the deduction has spearheaded the entire opposition of the Dairy Industry.

Mr. Edward Mulroy, a producer-handler, did not intend to become a folk hero. At the time he brought his suit he was merely acting in defense of the continuation of his business, which for over fifty years had been able to be continued by his predecessors and himself and which continuation was threatened by the deduction.

Nevertheless, to date, he, and I, have spoken, by invitation, to over four thousand dairy farmers, and hundreds of clubs and organizations in the State of New York. It is safe to say that there is virtually a unanimous opposition to the deduction in New York State from the public and farmers.

Attached is a table of the Secretary clearly showing why farmers are up in arms. There clearly is no extra money for the Secretary in such a sick industry. The Secretary knows this, but based on the above surveys, he will drive out by his tax, and into bankruptcy, 80% of the farmers of the United States.

The Secretary was given a license to help the farmer. He has turned it into a license to kill. By the thousands, farmers are begging you to save them.

Table [illegible].--Milk Production Costs and Returns by Selected Cost and Returns Items, by Regions and the U.S., 1981 1/

Item	Northeast	Upper Midwest	Corn Belt	Appalachia	Southern Plains	Pacific	All Regions 2/
	Dollars per hundredweight 3/						
GROSS REVENUE:							
Milk	14.08	13.37	13.49	14.17	14.84	13.47	13.72
Cull cows, calves, & replacement sales	1.20	1.51	1.20	1.02	1.03	.93	1.25
Total revenue	15.28	14.88	14.69	15.19	15.87	14.40	14.97
Direct costs:							
Feed costs	6.15	5.66	6.43	7.60	7.97	7.15	6.36
Other direct costs	3.12	2.60	3.14	3.42	3.19	2.73	2.92
Total direct costs	9.27	8.26	9.57	11.02	11.16	9.88	9.28
REVENUE ABOVE DIRECT COSTS	6.01	6.60	5.12	4.17	4.71	4.52	5.69
Ownership costs [illegible] 4/	3.70	4.17	4.36	3.47	2.98	2.46	3.72
Total direct and ownership costs	12.97	12.45	13.93	14.49	14.14	12.34	13.00
RETURNS TO PRODUCER:							
Operator and family labor	1.43	1.68	1.96	1.09	.73	.36	1.37
Management 5/	.88	.75	-1.20	-.39	1.00	1.70	.60
Total returns to operator, family labor, and management 6/	2.31	2.43	.76	.70	1.73	2.06	1.97

1/ Preliminary.
2/ Weighted average.
3/ Hundredweight of milk represents all milk sold and consumed on the farm.
4/ Replacement reserve, interest on borrowed and equity capital, taxes, and insurance.
5/ Residual returns.
6/ Returns to equity capital are included in ownership costs.

Source: Costs and Returns of Producing Milk in the United States - 1979, 1980, and Preliminary 1981. July 1982 Economic Research Service, USDA. Senate Committee Print.

STATEMENT OF DR. RICHARD W. STAMMER, ON BEHALF OF THE NORTHEASTERN COOPERATIVE COORDINATING COMMITTEE

My name is Richard W. Stammer and I reside at 96 Pillsbury Road, Londonderry, New Hampshire. I am the Manager of Economics and Communications for Agri-Mark, Inc., a cooperative which is owned by 3,800 northeastern dairy farmers. I am testifying today on behalf of the Northeastern Cooperative Coordinating Committee at the request of Louis Longo who is Chairman of the Coordinating Committee. The Northeastern Cooperative Coordinating Committee is composed of 13 member cooperatives and represents more than 25,000 dairy farmers in the northeast. The Northeastern Coordinating Committee unanimously supports the Dairy Compliance and Milk Promotion Program developed by the National Milk Producers Federation.

This legislation will address the problem of surplus milk production and will reduce the cost of C.C.C. purchases at a faster rate than any program which we are aware of. This bill, if passed by Congress will create an incentive to reduce production by paying dairy farmers $10/cwt for the amount they reduce production below their 1981-82 marketing base up to 30% of their base production. It will also create a disincentive to increase production by paying a token price of $1.10/cwt for the surplus percentage of milk produced by farmers over their base production. On the remaining, non-surplus production, producers will receive their regular price. In simple terms the two tier pricing system has a result such that producers who have not increased their production over their base will not experience any decrease in price while those who have increased production by an amount equal to or greater than the national surplus percentage will realize a decrease in their average price of approximately $.90/cwt. The price for those who have increased production less than the national surplus percentage will decline less than $.90/cwt.

This program will reduce milk production in the most economically efficient manner since it will allow each producer to evaluate his individual situation and make the appropriate management decision. These decisions will be made taking into account the individual farms economic situation regarding such factors as labor, available land, capital stock, family situation, and cash flow demands. Considering these factors many producers will choose to reduce their production in favor of a $10/cwt diversion payment for the percent of production reduction below their base. A paid diversion program would enable farmers carrying a heavy debt load, most probably young farmers, to cull their herds at a heavier rate, reduce their debt loads, and still maintain the needed cash flow to stay in business with a more efficient herd. For other producers, those of retirement age and those who would like to get out of dairy production for other reasons, this program would provide a retirement incentive. This is no different than retirement incentive programs recently instituted by such companies as Kodak and United Technologies. Still other producers will decide to maintain their higher levels of production and receive a reduced price.

A program that merely cuts prices to all producers does not allow the range of management discretion provided by the Dairy Compliance Program and will put many producers in a situation where they must increase production to maintain an adequate cash flow and just exacerbate the short run supply problem. Such a program would also penalize those farmers who have not increased production. Approximately 25 - 30 percent of our farms fall into this category which is comprised primarily of family owned and operated farms. It is not equitable to penalize these farmers who have not contributed to the national surplus problem.

The program is not as complex as it initially sounds and is quite simple to administer. Only those producers who qualify for either a reduced application of the surplus percentage or a diversion payment would need to have their bases certified. This simple certification could be made through local A.S.C.S. offices. In the past soil conservation practices, disaster payments, and even the current P.I.K. program were administered in a similar fashion. I can assure you that dairy farmers feel that the later programs are much more complex than the Dairy Compliance Program.

This type of program is politically acceptable to the dairy farm society, will save tax-payers approximately 1.4 billion dollars in its first year, and would reduce C.C.C. purchases to the level of

2 billion pounds of milk equivalent. A price support cut would be politically unacceptable to the majority of dairy farmers, reduce costs to the tax-payer only about 400 million dollars, and still leave the C.C.C. purchasing around 10 billion pounds of milk equivalent of product.

Once the dairy surplus problem has been alleviated dairy price support should again be based on a responsible level of parity (probably in the 60 - 62% range) to insure the American consumer of an adequate supply of milk and dairy products.

Because of the importance of milk and dairy products in the American diet it is only right and justified that a national fund for advertising, research, and promotion be established. Such a program will improve the dairy economy through increased demand while telling a balanced nutrition story to an American public that is deficient in its consumption of calcium and other important nutrients found in abundance in milk and dairy products.

The Dairy Compliance and Promotion Program contains a responsible approach to the serious over supply of milk now facing the nation. It addresses this problem and the government expenditure problem in a much more direct and effective manner than just cutting price supports in that it provides producers with a positive incentive to cut production. When this program ends, a bridge to parity should be provided to assure producers of price stability that will result in consumers being assured an adequate supply of milk at reasonable prices.

On behalf of 25,000 dairy farmers in the northeast I ask that you give serious consideration to the Dairy Compliance and Promotion Program.

STATEMENT OF PHIL NYBERG, PRESIDENT, LEAGUE OF CALIFORNIA MILK PRODUCERS

Dear Mr. Chairman and Members of the Committee:

My name is Phil Nyberg, dairyman and President of the League of California Milk Producers. The League is composed of the following organizations: Cal-Dari, Inc., Modesto; California Cooperative Creamery, Petaluma; California Producer/Handler Association, Riverside; Glenn Milk Producers Association, Willows; Humboldt Fluid Milk Producers Association, Gilroy; and United Dairymen of California, Lodi. The League represents 1,208 dairymen producing in excess of 18,000,000 pounds of milk per day. This testimony represents the viewpoint of all but 135 dairymen belonging to Milk Producers Council, who are representing themselves here today.

We appreciate the opportunity to make this presentation. We recognize the complexity of the issues involved and the far reaching ramifications of any decisions which are reached as a result of this and subsequent hearings. We have listened intently over the last several months as various ideas have been proposed which would attempt to solve the problem. Therefore, we have carefully considered the material we are submitting in an effort to resolve the problem of excess milk production, while at the same time, minimizing the impact of this adjustment upon individual dairy farmers.

We believe there are several issues which must be addressed at this hearing. Chief among them are (1) the financial impact of policy decisions upon the dairy industry and their compounding result upon the economies of rural communities; (2) the cost of the milk price support program to the federal government; and (3) the impact upon consumers. As we have reviewed the many suggestions, we have tried to analyze their intended effectiveness and impact as they relate to these three areas of concern.

We believe the most effective and quickest way to eliminate the current excess supply of milk and milk products would be to develop an incentive plan for dairymen. Because the support price has stayed at the same level for 31 months, we believe it is not necessary to reduce that level further and strongly oppose efforts on the part of some to do so. As we have studied this problem, we have consistently felt that the dairyman has done nothing "wrong" for which he must be punished. He has, for the most part, only responded to increased production due to the extreme lack of economic stimulus in other agricultural endeavors. There is no evidence that the quality of the product has deteriorated at all.

We have endorsed the concepts embodied within the Dairy Surplus Removal Act and many of the principles within the Dairy Compliance Act. Our Board of Directors and the dairymen they represent feel strongly that we must move quickly to combine the positive essential elements of these two programs into one program.

In concept, we would support and encourage others to support the establishment of a 50¢ per cwt. assessment for the purpose of helping to reduce both production and government outlays for dairy product purchases. We believe this is the most responsible way to adjust a producer's income during this period of time because, not only does it provide the economic disincentive necessary, but it provides assistance to the federal government as they continue the vitally important role of maintaining industry stability with the price support and commodity purchase program.

We support the concept of an incentive payment to producers who contract to reduce supply. This method of supply reduction can provide for the necessary production cutbacks without adding to the misery, chaos, and human suffering that would be forced upon thousands of farm families through a price support reduction.

An incentive plan would require a base system. We have long held reservations relative to the establishment of national bases and quotas. It is therefore with some reluctance that we support this limited establishment of bases for a short period of time. We feel the voluntary provisions for accepting bases are essential to the successful passage of any legislation. The voluntary establishment of bases under the Dairy Surplus Removal Act is preferable to us because it then establishes bases only for those who wish to participate in the program and who are able to respond to the economic incentive provided therein. We see so much similarity to this type of program from the Dairy Compliance Act that we strongly encourage the supporters of the Dairy Compliance Act to modify their position to provide for this voluntary base as opposed to their establishment of a mandatory base for all milk producers. We are confident the voluntary program would, during the duration of the proposal, accomplish the same goal without all the additional burden of the mandatory program.

We believe that any incentive program must be accompanied by strong penalties for failure to live up to the terms of the contracts or willful violations of those contracts. Because this program will be offered in all states, including states where per dairy income is higher, we would suggest the penalty provision for contract violations also include a percentage of the contract value in addition to a set figure.

We are convinced that the federal government is certain they can run a base program because they are advocating base programs for several of this nation's farmers at the present time. We cannot conceive why, if they can run it for the many thousands of grain and cotton farmers, that it becomes an unworkable, nonviable program for them to run for dairymen. It should be apparent to everyone that dairy production and sales record documentation is far superior to "crop estimate yields". The USDA's position is even more confusing in light of the fact that dairymen are voicing a willingness to help fund the program. If viewed in terms of the budget ramifications, we see that the other commodity programs far exceed in dollar value the amount of money spent on dairy. Therefore, it appears to us this type of voluntary incentive program could very easily be accommodated into the workings of the local ASCS offices and could be administered equitably and fairly to all those who participate.

In the development of these incentive plans, we strongly support the exclusion of producer/handlers, both from the assessment and the opportunity to participate in any reduction programs. The amount of milk they represent is relatively very small, and they generally require milk from outside sources to meet their demands. Hawaii, Alaska, and insular areas may also be considered for exclusion.

We have a strong desire to return to the effective programs of the past once the current problem has been resolved and, therefore, strongly support the concept of an improved parity program. By saying improved parity program, we believe at the conclusion of fiscal year 1985, a return to a revised parity system could be in place. We recommend strongly to the Congress that direction be given for establishment of an equitable dairy specific parity index. We strongly feel that one of the major reasons we are in the situation we are today is because of problems inherent within the parity indexing system currently in use. If that indexing system was modified to more closely relate to the cost of producing milk on an indexing basis, we are convinced it would be a more effective tool in the hands of government to accomplish the goals and designs of the milk price support system.

When comparing the "incentive type" plans against the three criteria we established earlier, we believe they compare very favorably. First, they would indeed minimize the economic impact on the industry and rural communities. Secondly, the incentive program with the 50¢ per cwt. assessment would provide the federal treasury with at least $63,000,000 per month for the duration of the program which would probably amount to over $1,890,000,000 in total. In addition, the cost per cwt. on the "milk" involved would drop from $16.00 plus per cwt. to $10.00 per cwt., thereby saving the CCC $6.00 per cwt. It is by far the best solution in terms of the federal budget.

In regards to the consumer impact, it is reasonable because it will insure a continuation of the level prices for at least another 30 months. When viewed from the perspective of stable, level prices for a total period of over five years, it has to taken very positively by consumers. Sales figures overall support this conclusion.

We would like to submit the following documentation for consideration as to how this program would impact a 200-cow dairy in the State of California. We are convinced this material shows the incentive possible to encourage producers to cut back on production while, at the same time, not economically debilitating the entire industry in order to force an adjustment upon the system. I'm sure the members of this committee are very well aware, as others have testified, that the major problem lies with the economic problems within the rest of agriculture rather than with the dairy industry alone.

One closing thought, while we recognize this committee may not have that much authority to establish higher minimum standards for fluid milk, we again call to your attention the importance of this issue in helping to resolve some of the problems we have been discussing here today. Even though it may not be within the jurisdiction of this committee, certainly individual members of this committee should do everything they can on other committees and on the floor of the House to seek approval of higher minimum standards.

HERD ANALYSIS

200 COWS MILKING 43# MILK/COW/DAY = SALES = 3,000,000#/YR.

	% 1982 PRODUCTION		
	110%	100%	90%
MILK SOLD - CWT.	33,000	30,000	27,000
CALIF. PRICE	12.26	12.26	12.26
INCOME	$404,580	$367,800	$331,020
-.50 ASSESSMENT	$(16,500)	$(15,000)	$(13,500)
+ $10 INCENTIVE	-0-	-0-	$30,000
GROSS INCOME	$388,080	$352,800	$347,520
+ CULL COW INCOME	-0-	-0-	$ 12,656
+/- VARIABLE COST	$(22,200)	-0-	$ 22,200
ADJUSTED INCOME	$365,880	$352,800	$388,626
FINAL ADJUSTED INCOME	$365,880	$352,800	$388,626

STATEMENT OF FRED DOUMA, VICE CHAIRMAN, MILK PRODUCERS COUNCIL

Mr. Chairman and Members of the Committee, my name is Fred Douma, a dairy farmer in Ontario and Hemet, California, serving as Executive Vice Chairman of the Milk Producers Council speaking for the Southern California Dairy Associations representing 35% of California milk production (13.9 billion pounds of milk produced annually in California). The Southern California Dairy Associations are seeking the reduction of the dairy price support by $1.00 per hundredweight at the earliest possible date. Other California Dairy Associations supporting dairy price support reductions of $1.00 per hundredweight, at 50 cents per hundredweight immediately, 25 cents per hundredweight October 1, 1983, and an additional 25 cents per hundredweight April 1, 1984, are the producer/distributors representing five percent of the state's annual production, Western Dairymen Association of Northern California representing 25% of the state's annual production and Producers Market Milk Association of Gilroy representing 2% of the state's annual production. These organizations represent 67% of the state's production in support of price reductions.

A dollar drop ($1.00 per hundredweight) in the dairy price support is the most responsible direction Congress can and should take. Dairymen could then plan their production with the certain knowledge of lower prices in the future. Reduction of the replacement herd could take place over the next several years. If feed prices were to increase as anticipated in the next twelve to twenty four months because of the P. I. K. program, a much faster decline in milk production would be realized.

This reduced dairy support price would lower the cost of dairy products to the consumer. This would stimulate commercial sales of all dairy products, especially in sales of manufactured dairy products (i.e., butter, nonfat dried milk powder and cheese).

In a paper presented at Dairy Farm Finance Cow College by Howard McDowell, an Assistant Professor in the Department of Agriculture Economics VPI and SU there would be as a result of a one dollar reduced price, 52% reduction in Commodity Credit Corporation purchases of dairy products in the first year.

This was developed by using supply and demand price elasticities as developed in a study done by Robert A. Milligan done in 1978 entitled "Milk Supply Response in California: Effects of Profitability Variables and Regional Characteristics," Western Journal of Agriculture Economics, 3 (1978): 154-164.

Another study used to develop these supply and demand elasticities is by Roger A. Dahlgran, "Welfare Costs and Interegional Income Transfers Due to Regulation of Dairy Markets," American Journal of Agriculture Economics, 62 (1980): 288-296. (Refer to Exhibits A and B)

The consumer benefit realized by a support price drop is a very beneficial and necessary part of the dairy price support program. A support price reduction would lower the cost of milk received by processors for all classes of milk. It would leave the ability of the open market to determine the price of milk used for fluid purposes in the different marketing orders.

Any other program would cost the consumers which live further away from the major production areas more for every gallon of milk purchased.

The two milk production reduction incentive programs offered here today for this Committee's consideration would in fact raise the price of fluid milk, from today's level, in major consumption areas which are of some distance from the major production areas of the nation.

This would happen if the basic premise of these programs was fulfilled; that premise being equal reduction of production among all areas of the nation.

When a supply of local milk production of a large consuming area is reduced, then any shortfall in local production needed for fluid demand would have to be replaced from supply areas. The transportation costs for this fluid milk, plus the cost of the milk purchased in a supply area is greater than the price paid for local production.

A case in point would be the Florida situation. A processor of fluid milk pays about $16.00 per hundred pounds for local milk delivered to his plant. Currently within the state the processor purchases about 10% of their demand from the Mid-West. The price of grade A fluid milk in the Mid-west is $13.50. Add to this $6.50 transportation costs to Florida, and you end up with a cost of $20.00 per hundred pounds of milk for that 10%.

If Florida producers were to be voluntarily induced to reduce production by 10%, then the shortfall would be 20% of their fluid demand purchased at $20.00 instead of 10%.

This situation may be the extreme of all areas, but the same situation exists on the entire east coast, the south east, the south west and the west coast.

We do not support a Class I price freeze. I repeat what I said earlier in my testimony that the open market would determine the level of price for fluid milk in each marketing order.

A basic economic premise which should not be forgotten is that time and location of a product has a certain real value.

We believe in the dairy price support program. It has given stability to the dairy industry while at the same time, our consuming public has received dairy products for a reasonable price. In fact, the price of milk has risen less than the price of all other food products since the passage of the Dairy Price Support Act of 1949.

We also believe at this time an adjustment in the support price is necessary. Because of a low feed price ratio, milk production is out of balance with demand. This could start to change as the P. I. K. program on feed grains begins to affect the cost of producing milk.

Although we support a dollar drop in the dairy price support, we would urge your serious consideration to phasing in that dollar on a $.50, $.25, $.25 basis. The first $.50 immediately with the other two $.25 authorizations on six month intervals if C.C.C. purchases are not below 7.5 pounds of milk equivalent annually.

We support a recovery of the dollar drop in the reverse order when purchases are below 7.5 billion pounds, 5 billion pounds, and 3 billion pounds. This would give the dairy industry time to react to higher feed prices as indicated by the current feed grain price movement ever since the announced P. I. K. acreage participation.

High support prices and low feed costs have caused the high milk production and certainly a lowering of the price and the rising feed costs should and will reduce the production. This is the surest long-range solution to our current problem.

The aforementioned California Dairy groups oppose the National Milk Producers Federation's Dairy Surplus Reduction Act, which sets a national base as the 1981-82 milk production, freezing the dairy support price at $13.10 per hundredweight, and pays dairy farmers $10.00 per hundredweight for decreased production of 5 to 30%. This plan would be of no dollar savings to consumers on butter, cheese and fluid milk prices in the stores.

Further, we oppose a plan developed by a coalition of Wisconsin dairy leaders (Voluntary Incentive Plan) which again would pay dairy producers $10.00 per hundredweight of milk for voluntarily reducing milk production 5 to 30%. An assessment program on all milk of 50 cents per hundredweight would provide funds for the government to pay farmers for cutting back production of 5 to 30%. Again, no savings to the consumers. Support prices would remain at $13.10 per hundredweight. The assessment of 50 cents per hundredweight could and most likely would be passed back to the consumer in higher store prices on fluid milk because of over order premiums charged to milk processors.

We support the repeal of the current authorized assessment plan. This tax on milk production has no consumer benefit and conversely a probable consumer cost. Any consumer tax savings from the collection of the assessment would be more than offset by maintaining current prices and in some cases higher prices than those which exist today. In reality, the current supply of milk dictates a lower producer price and therefore a lower consumer price.

There appears to be two directions for solving the production problem presented here today. One would be incentives to producers who reduce production with no consumer savings and maintaining an artifically high consumer price.

The other direction is the lowering of the dairy price support by one dollar. This has direct benefits to all consumers through lower prices of dairy products.

The lowering of support prices seems to have the greatest benefit and is also the simplest way to solve the problem before this committee today.

As dairy producers, we urge your serious consideration to this matter and request your prompt action so we can start to solve the national over production problem.

EXHIBIT A

Table 3. Supply and Demand Price Response

	Q	P	E	ΔQ/ΔP
	billion cwt.	cwt.	elasticity $\frac{\Delta Q}{Q}/\frac{\Delta P}{P}$	
Production	1.343	13.23		
1st Year			.425[a]	.043
5th Year			.924[a]	.093
Consumption				
Mfd.	.773	12.72	-.352[b]	.021
Fluid	.569	13.92	-.112[b]	.005

Sources

a. Robert A. Milligan, "Milk Supply Response in California: Effects of Profitability Variables and Regional Characteristics," Western Journal of Agricultural Economics, 3(1978): 154-164.

b. Roger A. Dahlgran, "Welfare Costs and Interregional Income Transfers Due to Regulation of Dairy Markets," American Journal of Agricultural Economics, 62 (1980): 288-296.

$$E = \frac{\Delta Q}{Q}/\frac{\Delta P}{P}, \quad E = \frac{\Delta Q}{\Delta P}\frac{P}{Q}, \quad \frac{\Delta Q}{\Delta P} = E\frac{Q}{P}$$

Fluid Price:

$$13.23 = \frac{12.72\ (.774) + Pf\ (.569)}{1.343}$$

$$P_f = [13.23\ (1.343) - 12.72\ (.774)]/.569$$

$$= 13.92$$

EXHIBIT B

Table 4. Quantity Changes Given Changes in the Support Price

(ΔQ/ΔP)	ΔP	$-.50	$-1.00	$-1.50	$-2.00	
Production (.043) (1st year)	ΔQ	-.022	-.043	-.065	-.086	A
Consumption						
Mfd. (-.021)	ΔQ	+.011	+.021	+.032	+.042	B
Fluid (-.005)	ΔQ	+.003	+.005	+.008	+.010	C
Total Consumption		+.014	+.026	+.040	+.052	D
Total Effect (1st year)	ΔQ	.038 28%	.069 52%	.105 78%	.138 103%	((-A)+D)
Production (.093) (5 years)	ΔQ	-.047	-.093	-.140	-.186	E
Total Effect		.061	.119	.180	.238	((-E)+D)

Total Effect = decrease in government purchases

CCC purchases at .134 billion cwts. in 1981-1982.

[THE FOLLOWING MATERIAL WAS SUBMITTED BY RALPH MITZEL, NEW YORK FARM BUREAU. SEE P. 91 FOR THE ORAL TESTIMONY OF MR. MITZEL]

SUPPLY - DEMAND RESPONSES - $1.00 PER CWT REDUCTION

This chart outlines the long run impact (1 year after implimentation) of reducing the support price by $1.00 per cwt. This chart is taken from a New York State Department of Agriculture and Markets report.

MODEL 1: REDUCE PRICE SUPPORTS AND THEREFORE FLUID AND MANUFACTURING MILK PRICES BY $1.00 PER CWT.

SUPPLY ELASTICITY= 0.521, DEMAND ELASTICITY (FLUID)=-0.180, DEMAND ELASTICITY (MANUFACTURE)=-0.450

		ORIGINAL	ADJUSTED	CHANGE	% CHANGE
MILK PRODUCTION	(MIL LBS)	130434	125699	-4735	-3.63
FLUID MILK	(MIL LBS)	54000	54648	648	1.20
MANUFACTURED MILK	(MIL LBS)	63573	65816	2243	3.53
GOVT PURCHASES	(MIL LBS)	12861	5235	-7626	-59.30
PRODUCER REVENUE	($ MIL)	17835.	15988.	-1846.	-10.35
GOVT EXPENDITURES*	($ MIL)	1934.	882.	-1051.	-54.37
BLEND PRICE	($/CWT)	13.673	12.719	-0.954	-6.98
FLUID PRICE	($/CWT)	14.980	13.980	-1.000	-6.68
MANUFACTURE PRICE	($/CWT)	12.750	11.750	-1.000	-7.84
GOVERNMENT PRICE	($/CWT)	13.100	12.100	-1.000	-7.63

SUPPLY - DEMAND RESPONSES - NEW YORK FARM BUREAU

This chart outlines the supply-demand response of the New York Farm Bureau gradual price support reduction program. The projections are based on a long run supply elasticity = 0.521, short run elasticity = 0.089, demand elasticity (fluid) = 0.180, demand elasticity (manufacture) = 0.450. These are taken from the following paper: Hammond, Jerome W. Regional Milk Supply Analysis, Staff Paper 74-12, Department of Agriculture and Applied Economics University of Minnesota, July, 1984. The demand figures are based on the assumption that lower raw product prices are passed on in lower consumer prices. The projections are based on 1981 production/consumption and government purchases data.

Table 1. Estimated Impacts of Specific Reductions in the Dairy Support Price Based on 1981 Initial Data [1]

	Time Period (Three Month Intervals)						
	1	2	3	4	5	6	7
Factor	Original Level	$.25 Reduction New Level	$.50 Reduction New Level	$.75 Reduction New Level	$1.00 Reduction New Level	$1.25 Reduction New Level	$1.50 Reduction New Level
Fluid Price ($/cwt)	$14.98	$14.73	$14.48	$14.23	$13.98	$13.73	$13.48
Manufacturing Price ($/cwt)	$12.75	$12.50	$12.25	$12.00	$11.75	$11.50	$11.25
Support Price ($/cwt)	$13.10	$12.85	$12.60	$12.35	$12.10	$11.85	$11.60
Milk Production (Mil.lbs.)	130,434	130,224	130,015	129,807	129,247 [2]	128,062 [2]	126,879 [2]
Producer Revenue (Mil/$)	$17,835	$17,486	$17,138	$16,792	$16,440 [2]	$15,969 [2]	$15,517 [2]
Fluid Consumption (Mil.lbs.)	54,000	54,162	54,324	54,486	54,648	54,811	54,973
Mfg. Consumption (Mil.lbs.)	63,573	64,133	64,694	65,255	65,816	66,377	66,938
Government Purchases (Mil.lbs.)	12,861	11,929	10,997	10,066	8,783 [2]	6,874 [2]	4,968 [2]
Government Expenditures (Mil/$)	$1,934	$1,782	$1,635	$1,492	$1,312 [2]	$1,064 [2]	$ 825 [2]
Blend Price ($/cwt)	$13.67	$13.43	$13.18	$12.94	$12.72 [2]	$12.47 [2]	$12.23 [2]

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[1] Most of the figures shown in this table are "short run" results, obtained either immediately as in the case of the fluid, manufacturing, and support prices, or after a fairly short period of time as in the case of the changes in the levels of consumption which would be expected to respond quickly to the price reductions.

[2] These figures are adjusted to take into account some long run impact that would begin to be felt as the price reductions continue to accrue.

NEW YORK FARM BUREAU
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NEW YORK FARM BUREAU
1983 National Dairy Program

New York State is the nation's third largest dairy producing state with annual production of approximately eleven billion pounds of milk. The dairy industry generates $1.5 billion in gross farm receipts which provides the economic basis for hundreds of upstate New York communities. A strong New York dairy industry is not only beneficial to agriculture but also benefits the entire state economy and all consumers of the state. There are approximately 14,000 dairy farms in New York.

The U.S. dairy industry is confronted with a very large production-consumption imbalance which has resulted in increasing purchases of surplus dairy products by the Commodity Credit Corporation. Since inception of the dairy price support program in 1949, it has generally worked well to provide stability in the market for dairy products for the producer, while assuring an adequate supply of milk and milk products to the consumer.

The present surplus is a result of numerous factors which occurred in the 1970's encouraging expansion of our dairy industry beyond the domestic market. These factors include a price support program which was not flexible and did not adjust depending on surplus levels. The present dairy surplus situation and increasing government dairy expenditures have prompted the need for revisions in the dairy support program.

In August, 1982 Congress passed the Omnibus Reconciliation Act which included dairy provisions calling for an assessment program. This assessment program is widely opposed by most farm and dairy groups as an ineffective policy for dealing with the dairy dilemma. The assessment program fails to give market signals to producers, establishes a tax on milk production and does not stimulate increased consumption.

New York Farm Bureau - 1983 Dairy Objectives:

- Maintain a viable dairy price support program.
- Give correct and long term signals to the dairy industry and lending institutions relative to the price for milk.
- Relate the price support for milk to the market situation.
- Enact an administratively feasible program.
- Stimulate consumer demand for milk and milk products.
- Provide a mechanism for the support price to increase when surpluses are reduced.

1983 Dairy Program - New York Farm Bureau Recommendations:

1. Repeal the present dairy assessment program provided for in the 1982 Budget Reconciliation Act. This program establishes a dangerous precedent for agriculture - a tax or assessment on the production of an agricultural commodity. The initial impact of the assessment will cause dairymen to increase production in an effort to offset decreased income levels. The assessment does nothing to reduce prices to consumers, thus the assessment will not help to increase commercial consumption of milk and milk products. The assessment is viewed by dairymen as a penalty, not a long range market signal.

2. Price Support Adjustments

A. Enact a price support program which would allow the support level to adjust according to the amount of net dairy products purchased by the federal government. The base level for the price support should be $11.60 (3.7% milk fat). The so-called trigger price support program would allow the support price for milk to increase when government surplus purchases are low and to decrease when government purchases are high. The program would help remove political pressures on the determination of the support price level.

B. In order to allow time for the dairy industry to adjust production levels, we recommend that the support level be reduced by 25¢/cwt every three months, beginning April 1, to a base of $11.60 if necessary.

Support Price Adjustments

$13.10	Present Support Level (3.7% milk fat)
12.85	April 1, 1983
12.60	July 1, 1983
12.35	Oct. 1, 1983
12.10	Jan. 1, 1984
11.85	April 1, 1984
11.60	July 1, 1984 (base level)

C. If at any time during the fifteen months beginning on April 1, in which the 25 cent price support adjustments are to be made, the surplus level shows a clear reduction compared to the previous year, the support level will be frozen at that price support level. Thus price support reductions will not be made once the production-consumption imbalance begins to be corrected.

Supply-Demand Response: It is difficult to determine the outcome of price reductions on the supply-demand situation. In 1982, milk production was approximately 135 billion pounds while commercial consumption was 123 billion pounds. Thus purchases of milk products by the Commodity Credit Corporation on an annual basis now account for approximately 12 billion pounds milk equivalent.

Our projections indicate that if the reductions recommended of 25¢ every three months were made, that within one year -- after the price is reduced by $1.00 per hundredweight -- government purchases would decrease by over 4 billion pounds (increased consumption = 2.9 billion pounds; decreased milk production = 1.2 billion pounds). After all six 25¢ adjustments are made (if necessary), government purchases would be reduced by 7.9 billion pounds milk equivalent to a range of 4-5 billion pounds (4.3 billion pounds - consumption increase, 3.6 billion pounds - production decrease). These consumption responses assume that the decreased price paid to the producer is passed on to the consumer. Government expenditures would also decrease from the approximate $2 billion level to less than $1 billion in 15 months.

One of the major factors in the success of a price support reduction program is to increase commercial consumption of dairy products by reducing the price to consumers. Dairymen do not establish retail prices and thus cannot assure that the savings will be passed on to the consumer. But with the competitiveness of the dairy industry, consumer price reductions should occur and result in increased commercial consumption.

A price support reduction program as with most other programs will not quickly reduce government cost with the dairy program. It will take 2-3 years for the program to bring supply and demand into balance. This time is necessary to assure the continued success of the dairy industry and to avoid long term damage.

3. Adopt a national dairy promotion program to conduct promotion of all dairy products and administered by dairymen. The program would be financed from a 15 cents per hundredweight deduction on the blend price paid to producers. State and/or regions which have existing dairy promotion programs would be credited or rebated for their existing state program so that in no case would the national dairy promotion program cause a dairyman in any state to pay more than 15 cents per hundredweight. The program should allow for promotion of both manufactured dairy products and fluid milk. A sound national promotion effort should help increase consumption by an estimated 2-4 billion pounds milk equivalent. Coupled with the price support reductions recommended, major increases can be made in commercial consumption.

4. Enact an increase in the Food and Drug Administration minimum standards for fluid milk to assure a better tasting and more nutritious product while reducing government surpluses of non-fat-dry milk.

Present Standards - Proposed Standards

The present federal standards provide for:

Federal Standards

	MINIMUM	
	Milkfat	Solids-Not-Fat
	Percent	
Milk	3.25	8.25
Lowfat Milk	0.5-2.0	8.25
Skim Milk	less than 0.5	8.25

The so-called California Standards are:

California Standards

	MINIMUM	
	Milkfat	Solids-Not-Fat
	Percent	
Milk	3.5	8.7
Lowfat Milk	2.0	10.0
Skim Milk	.25	9.0

The higher standards would result in a considerable volume of nonfat dry milk that would be added to fluid milk to meet the higher solids-not-fat levels. An estimated 250 to 300 million pounds of nonfat dry milk would be used, saving the government approximately $300 million annually in reduced purchases of nonfat dry milk.

Those opposed to the higher standards argue that it will increase cost to the consumer and thus reduce sales of fluid milk. Although this is debatable in light of higher California consumption levels, if the support price was reduced under the program outlined, the lower cost of raw milk will make up for the increased cost of adding solids-not-fat to the lowfat milk under the proposed higher standards.

5. Enact a quota to be placed on imports of casein for food uses. Casein is the main protein found in milk. Under the U.S. dairy program, casein is not profitable to produce. It is imported into the U.S. from numerous countries including some European countries that subsidize its' production. Casein is widely used as the key ingredient in imitation cheese and other imitation dairy products. It displaces uses for both cheese and nonfat dry milk. Restricting casein imports will act to decrease CCC purchases of cheese and nonfat dry milk.

STATEMENT OF HON. WILLIAM PROXMIRE, A U.S. SENATOR FROM WISCONSIN

Mr. Chairman, I appreciate this opportunity to appear before you and other members of the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices to testify in support of S. 509, the Dairy Surplus Reduction Act of 1983.

I introduced S. 509 on February 17, 1983, with my colleague from Wisconsin, Senator Kasten, joining me as a cosponsor.

I should point out that this legislation was developed by a coalition of outstanding dairy leaders from Wisconsin. They deserve the credit for the approach contained in S. 509 and for joining together in a constructive effort to solve our dairy surplus problem.

Let me mention, too, that Congressmen Obey, Gunderson, and others also introduced this same bill in the House of Representatives on February 17.

Although this measure has its origins and its original congressional sponsorship in Wisconsin, it is legislation that can and should be supported by members of Congress from throughout the country. I hope that my explanation of S. 509 and what it can accomplish will persuade the members of the Subcommittee to give this bill their full support.

S. 509 establishes a Voluntary Incentive Program(VIP) aimed at achieving several major purposes. First, it will restore -- in a timely fashion -- the necessary balance between milk supply and demand. Second, the VIP will reduce Commodity Credit Corporation (CCC) purchases of dairy products and thereby cut federal expenditures for the dairy price support program. Third, this program will maintain dairy farmer income at adequate levels while also giving individual producers the opportunity to combine increased profits with reduced production. And fourth, these results are to be realized on a voluntary basis: reduced production levels are not made mandatory and entry by new producers is not restricted.

Key provisions

Under this legislation, some provisions of existing law remain intact. First, the support price for milk and milk products is kept at $13.10 per hundredweight through September 30, 1985. And second, the authority of the Secretary of Agriculture to deduct 50 cents per hundredweight from the support price if he estimates that annual CCC purchases will exceed 5 billion pounds milk equivalent is retained.

Beyond the retention of these two key provisions, however, current law is changed by the VIP in a number of major ways. Here are the main components of S.509.

First, the authority of the Secretary of Agriculture to deduct an additional 50 cents per hundredweight from the support price is repealed.

Second, the VIP provides incentive payments of $10.00 per hundredweight to dairy farmers who voluntarily reduce their production below their "base period" production. The base period is calendar year 1982. The Agricultural Stabilization and Conservation Service (ASCS), which will administer the VIP, may adjust the base period in hardship cases.

Third, whenever the Secretary of Agriculture implements a 50 cents per hundredweight deduction from the support price of milk, the Secretary must also offer any dairy producer the opportunity to contract with the ASCS to reduce his anticipated milk marketings from the level he marketed in calendar year 1982. Those dairy farmers choosing to participate in the VIP are required to contract to reduce marketings for one year and may be given an opportunity to contract for a second one-year period. The contracts will coincide with the federal fiscal year and the milk marketing year, both of which, of course, are on an October 1 to September 30 cycle. If this legislation becomes law prior to September 1, 1983, a special base period of less than one year will be established for the remainder of the current fiscal year. In that case, marketings during the corresponding months of 1982 will be used to establish the total amount of milk from which a producer will make a percentage reduction.

Incentive payments

Fourth, the ASCS is required to pay the contracting producer one-half of the incentive payment within 30 days of the signing of the contract. The other half will be paid at the end of the contract period upon proof of compliance with the terms of the contract. Failure to comply obligates the producer to repay to the ASCS the advance payment plus interest at the rate of 12 percent per year.

Fifth, producers who choose to take part in the VIP are required to contract to reduce their milk marketings by between 5 and 30 percent of their 1982 level. Contracting producers are in compliance if their actual reduction is within 3 percentage points of their contracted reduction, except that no payment shall be made for a reduction of less than 5 percent or more than 30 percent of their base. In more detail, here is how the program works.

A producer who reduces his marketings within three percent of his agreed percentage reduction will be paid $10 per hundredweight of reduced marketings. equal to the agreed percentage plus 3 percent.

A producer who reduces his marketings by less than 3 percent of his agreed percentage reduction will receive no payment and must return his advance payment plus interest at the annual rate of 12 percent.

Again, no payment will be made for a marketing reduction of less than 5 percent or more than 30 percent of a producer's base.

Payment examples

For example, let us assume that a producer has a contract calling for a 15 percent reduction in marketings. If his actual reduction is less than 12 percent of 1982 marketings, he receives no incentive payment and must return the advance payment plus interest. If he reduces marketings by between 12 and 18 percent, he is paid for his actual reduction. If his actual reduction exceeds 18 percent, he is paid for 18 percent.

Sixth, contracts made by a producer who transfers, by sale or otherwise, as a unit, all his interests in all milk production facilities and all cattle used by him to produce milk for commercial marketing, may be assigned by that producer to the transferee of the facilities and cattle if the producer and the transferee agree in writing that the transferee shall succeed to all rights and liabilities of the producer under the contract and a copy of that written agreement is submitted to the Secretary of Agriculture before the transfer occurs.

Seventh, a producer violating the terms of his contract other than not meeting the specified percentage reduction by 3 percent shall be liable for a civil penalty of not more than $10,000, to be assessed by the Secretary of Agriculture after a hearing on the record.

An example of this kind of contract violation would be a producer with vacant space in his production facility because of his contract under the VIP who then leases that space to another dairy producer. Under the terms of the contract entered into by producers, a producer agrees not to lease or sell his unused dairy cows to another for the production of milk and not to permit other producers to use vacant portions of his production facility resulting from his compliance with his contract.

Reduction adjustment

Eighth, if the Secretary of Agriculture determines that the total marketing reduction contracted for under the VIP would exceed the amount required to bring supply and demand in line, then the Secretary may adjust each individual contract on a pro rata basis to prevent such an excess reduction.

Ninth, the program authority established by this legislation expires on September 30, 1985.

Mr. Chairman, why do I advocate this particular program? And why should it be acceptable to -- and, indeed, I hope, wholeheartedly supported by -- the Administration, the Congress, and the taxpayers? There are many reasons.

First, the VIP involves a minimal degree of federal government regulation and administrative cost. It is, as I have stated, to be administered by an existing governmental agency, the Agricultural Stabilization and Conservation Service.

Second, the VIP is a program that is simple to understand and to administer.

Third, this program is, once again, voluntary.

Fourth, the VIP does a better job -- in terms of total cost to the taxpayer and dairy surplus reduction -- than the current program, a straight $13.10 per hundredweight program, or a program calling for 60 percent of parity. Mr. Chairman, I have a table that outlines the figures supporting this statement, and I ask that it be reprinted at this point in the hearing record.

COMPARATIVE PROGRAM PURCHASES AND COST

MILK MARKETING YEAR	STRAIGHT $13.10	60% * PARITY	CURRENT PROGRAM	D.S.R.A.
1982-1983 **				
--Purchases	13.60	13.24	14.20	8.95
--Cost	$2,312	$1,989	$1,497	$1,217
1983-1984				
--Purchases	14.77	10.71	11.31	3.89
--Cost	$2,511	$1,715	$ 689	$ 695
1984-1985				
--Purchases	13.50	9.90	8.85 ***	2.65
--Cost	$2,295	$1,650	$ 396	$ 485

(all purchases in billions of pounds)

(all costs in millions of dollars)

* $11.37/cwt on 10/1/82; $12.17/cwt on 10/1/83; $12.77 on 10/1/84.

** Assuming any program changes are implemented 4/1/83.

*** So long as purchases exceed 7.5 billion pounds annually, the Secretary is entitled to the full $1.00 deduction, thereby minimizing costs. Of course, so long as we are purchasing more than 7.5 billion pounds annually, the long-term problems of the dairy price support program have not been solved.

Source: Dr. Robert A. Cropp
UW-Extension Economist

The figures in this table assume a 5 percent reduction in total dairy marketings resulting from the implementation of the Dairy Surplus Reduction Act.

Conservative estimate

Mr. Chairman, this is a very conservative estimate. Bill Knox, who is the editor of Hoard's Dairyman magazine, has run a computerized random sample of his readers to determine participation in the VIP. The findings of this survey reveal that over 60 percent of the nation's dairy farmers would participate in the VIP and that the resulting cutbacks would reduce national milk marketings by 9 percent or 12 billion pounds, thereby wiping out the current annual surplus. In addition, the Knox poll found that dairy farmers throughout the country would take part in the VIP. According to Mr. Knox, regional support for the VIP lined up this way: West, 62 percent; North Central, 61 percent; Southwest, 62 percent; Southeast, 65 percent; and Northeast, 51 percent.

Fifth, currently, it costs the federal government $17.00 per hundredweight to support milk at the level of $13.10 per hundredweight. The difference between these two figures is the cost of manufacturing, interest, inspection, transportation, and storage, none of which benefits the dairy farmer. It is less costly for the government to pay dairy farmers $10.00 per hundredweight for not producing milk than it is to pay the $17.00 per hundredweight that is required to fund a $13.10 per hundredweight price support level under the present program. This $7.00 differential represents a significant savings to the federal government in price support costs. Both the federal government and the producer benefit from this approach. To top it off, part, if not all -- it depends on the exact level of producer participation -- of the $10.00 per hundredweight incentive payment to complying producers will be paid for through the 50 cents per hundredweight assessment to be levied against both complying and non-complying producers.

Milk supply

Sixth, the VIP serves the best interests of consumers and taxpayers -- as well as dairy farmers -- by helping to ensure an adequate supply of quality milk at reasonable prices in the future.

Seventh, the VIP is not inflationary.

And eighth, this program contains safeguards against over-participation on a national basis.

Any reasonable and responsible dairy program must be fair to dairy farmers as well as acceptable to the Administration, the Congress, and the taxpayers. I have already cited some reasons why the VIP, in my view, should be acceptable to dairy farmers. Let me add to that list of reasons.

First, the VIP is, again, voluntary. A dairy farmer can elect not to participate and thereby receive $13.10 per hundredweight minus the 50 cents per hundredweight assessment.

Second, the dairy farmer -- if he chooses to participate -- can determine the exact extent of his participation within the 5 to 30 percent range. He is free to determine how to reduce his production through culling, feeding milk to calves, and other means. And, as a participant in the VIP, he signs up for only one year at a time.

Third, the VIP rewards cuts in production. The dairy farmer's return on his reduced marketings is the $10.00 per hundredweight incentive payment plus the variable costs saved as a result of not producing milk. These variable costs amount to $6 to $9 per hundredweight. The VIP, therefore, provides a total return of $16 to $19 per hundredweight on reduced marketings below the 1982 base period. By participating in the VIP, the dairy farmer maintains his cash flow and covers the returns and fixed costs associated with reduced production.

Producer impact

I have a second table, Mr. Chairman, and it shows the impact of the VIP on an individual producer whose marketings are 90 percent, 100 percent, and 110 percent of his 1982 base. The table assumes that this producer had a 1982 base of 625,000 pounds. This table reveals that, under the VIP, the average return per hundredweight to this producer if he markets 90 percent of his 1982 base would be $14.56 (or 77 percent of parity). Compare this to his return of $12.60 per hundredweight (or 67 percent of parity) if he marketed 100 percent of his 1982 base and $11.48 per hundredweight (or 61 percent of parity) if he marketed 110 percent of that 1982 base.

Mr. Chairman, I ask that this table be reprinted at this point in the hearing record.

VOLUNTARY INCENTIVE PROGRAM

INDIVIDUAL PRODUCER IMPACT

	Percent of 1982 Base Produced[a]		
	90%	100%	110%
Cwt. of milk sold	5625	6250	6875
x support price	$13.10	$13.10	$13.10
Gross Milk Income	$73,688	$81,875	$90,063
-50¢/cwt. deduction	($2,813)	($3,125)	($3,438)
+$10/cwt. payment	6,250	-0-	-0-
Adjusted Gross Milk Income	$77,125	$78,750	$86,625
+/- Feed and other variable costs[b]	4,625	-0-	(4,625)
- unused fixed costs[c]	(2,325)	-0-	-0-
+ add. fixed costs[d]	-0-	-0-	(3,063)
+ add. cull cow income	$2,500	-0-	-0-
Final Adjusted Gross Milk Income	$81,925	$78,750	$78,937
Average return per cwt.	14.56	12.60	11.48
Percent of parity	77	67	61

(a) 50 cow herd x 12,500 pounds per cow: 625,000 pound 1982 base.

(b) Feed and other variable costs at $7.40 per hundredweight.

(c) $3.72 per hundredweight for buildings and equipment not fully utilized.

(d) $4.90 of additional fixed costs per hundredweight including additional depreciation on cows.

Future program

Fourth, the VIP helps ensure the retention of the dairy price support program in the future.

Fifth, the VIP provides a means for producers to again be part of a balanced supply-demand situation and a reasonable price situation on a timely basis.

Sixth, the VIP helps to preserve the family dairy farm. It also assists young farmers to remain in dairy farming.

And finally, the half-payment to be received by contracting producers within 30 days of sign-up for the VIP will assist in maintaining their cash flow.

Mr. Chairman, I urge you and your colleagues on the Subcommittee to give S. 509, the Dairy Surplus Reduction Act of 1983, your enthusiastic support.

# # #

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER, PUERTO RICO

MR. CHAIRMAN, Members of the Subcommittee.

I thank the Chairman and members of the Subcommittee for the opportunity to submit this testimony for the record of this hearing. I also want to congratulate the Chairman for calling this hearing to provide a forum for the thousands of valid grievances that have arisen due to the enactment last fall of this requirement to force dairy producers to pay a fee for all milk marketed in the United States.

Today and tomorrow, you will hear in detail from dairy farmers and producers why this fee system is the wrong approach for dealing with the surplus of milk and with the cost of the federal price support program. I totally sympathize with their grievances and I agree that this is an unfair and unacceptable system.

The federal dairy price support program is designed to assure an adequate supply of pure and wholesome milk to meet current needs and to assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs.

The members of this Subcommittee, however, may not be aware that the price support program has traditionally been based on the erroneous assumption that a single integrated national dairy market exists throughout the 50 states and all of the U.S. territories. The purchase of non-fat dry milk, butter and cheese have the effect of removing fluid milk from the fresh milk market. This reduces the supply of fresh milk and therefore raises its price. This market-based mechanism may work only in those areas where fluid milk is easily and economically transportable.

The Department of Agriculture has never considered the possibility that a number of completely isolated milk markets might exist. It is an unchallengeable fact that the milk markets that are outside the 48 contiguous states are economically as well as geographically separated from the mainland market due to the nigh costs of transporting such a highly perishable and very bulky product such as fresh milk.

It is quite obvious that a program in which the federal government supports the price of fresh milk through the purchase of processed milk products cannot possibly provide support to the price of milk in markets that are economically separated from the market of the 48 states. Furthermore, the costs of producing milk is much higher when all of the feed consumed by the cows must be imported. In fact, the cost of producing milk in Puerto Rico is 80 percent higher than the current support price of 13.10 per hundredweight.

The Department of Agriculture does not even consider the production, cost and price statistics from these separate markets in their economic analyses of what they refer to as the "national" dairy market. None of these noncontiguous areas, Mr. Chairman, have ever been a part of such a national market. All of the island jurisdictions have always had their own small, dairy markets that are wholly separate and distinct from the mainland market. In Puerto Rico, for example, we produce all of the fresh milk to satisfy our own local demand. We do not buy any from U.S. mainland, nor do we sell any to the mainland. Moreover, we have never sold an ounce of surplus to the Commodity Credit Corporation.

Since the federal dairy program has never provided any benefits to our milk producers, Puerto Rico found it necessary to implement its own program for regulating the price of milk and for managing its own surpluses. Our Milk Industry Regulation Office, since 1956, has set production quotas and price levels, developed quality standards and licensed our dairy farmers. Our surplus production is managed by processing it into milk products and by paying the producers a price that is less than half of what they receive for milk sold in a fresh, fluid form. This Office also manages a dairy promotion program funded by contributions from our producers.

Even though the Agricultural Adjustment Acts have been in effect in Puerto Rico since 1938, we have been unable to receive any benefits from the dairy program since its inception in 1949.

Now, however, our producers find themselves having to help pay the costs of a price support program from which they have never received any benefits. I am confident that you will agree that this is a gross injustice to the dairy producers of Puerto Rico and the other markets that are completely isolated from the mainland market.

So, here we are, a separate milk market for decades past and future, 1,000 miles from Florida, and not able in practical economic terms to sell our surplus to the federal government, thereby being forced to deal with it ourselves, all of a sudden being told our producers and eventually our consumers have to pay a fee that is designed to subsidize the national surplus purchases.

Mr. Chairman, this is a perfect illustration of legislation being conceived and passed with no consideration whatsoever of its inapplicability as an economic adjustment tool on jurisdictions in which it has no regulatory effect except to exact an onerous fee. It makes no sense whatsoever to extend this dairy fee to small, self-contained, offshore dairy markets.

For this reason, in January, I introduced H.R. 88 in the House, and I have also co-sponsored with my colleagues from Hawaii, Alaska and the other U.S. insular areas, H.R. 1704. These bills would remove the U.S. non-contiguous jurisdictions from the purview of this assessment. I urge this Subcommittee to consider and adopt what H.R. 88 or H.R. 1704 seek so as to eliminate this injustice.

There is no reason why my bill, dealing with a truly special situation, should not be approved quickly. Regardless of the outcome of the larger debate over the best way to achieve the laudable objectives of the dairy price support program, the producers of these island jurisdictions should not be made to suffer the onerous consequences of the deduction system.

STATEMENT OF JOHN C. DATT, DIRECTOR, WASHINGTON OFFICE, AND MICHAEL V. DURANDO, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation, representing more than 3 million member families, is the nation's largest general farm organization. Farm Bureau represents more than 75 percent of America's farmers, with a majority of the nation's dairy producers included in that membership.

Farm Bureau is pleased to appear before this subcommittee to present its recommendations concerning proposed changes in the dairy price support program. The U.S. dairy industry is confronted with the largest imbalance in its history between what is produced and what is sold commercially. This imbalance, and the resulting excessive government expenditures for purchases of dairy products, has put the dairy program under close scrutiny and its future in jeopardy.

Recognizing the serious nature of the dairy situation, the American Farm Bureau Federation voting delegates at their recent annual meeting in January, 1983, approved the following policy relating to the national dairy program:

> "We support a dairy price support program which will bring supplies down to demand levels.
>
> "We favor a system where the price support level would be adjusted according to the amount of net dairy products purchased by the federal government and oppose any assessment of producers by the federal government on CCC purchases of dairy products.
>
> "We urge repeal of that portion of section 101 of the Omnibus Budget Reconciliation Act of 1982, and implementing regulations providing for a 50 cents per hundredweight user fee.
>
> "We recommend that the dairy section of the Omnibus Budget Reconciliation Act of 1982 be amended to delete Puerto Rico."

Based on the policy adopted by our voting delegates, the American Farm Bureau Federation recommends the following:

1. That subsection (d) of section 201 of the Agricultural Adjustment Act of 1949 as amended, be deleted; and

2. That subsection (c) of section 201 of the Agricultural Adjustment Act of 1949 be amended to read as follows:

> "The price of milk shall be supported, through purchases of milk and the products of milk, at such level not less than $11.32 per hundredweight (3.67 percent milkfat) as the Secretary determines necessary in order to assure an adequate supply of milk to meet current needs and taking into consideration the net dairy products purchased by the CCC during the preceding fiscal year. The price shall be adjusted annually at the beginning of each fiscal year."

In simple terms, Farm Bureau is recommending that the current authorization for the two 50 cent per cwt. assessments on all milk marketed be repealed, and that the Secretary of Agriculture be given the authority to establish the support price for dairy products at a level not less than $11.32 per hundredweight. Farm Bureau believes that such a program would allow the Secretary the discretion which was made available to him until 1977 to operate a dairy price support program that is responsive to market conditions. It was after such discretion was reduced by the Food and Agriculture Act of 1977 and later removed that the dairy situation became uncontrollable resulting in the problem being discussed today.

Farm Bureau's dairy producers continue to support the basic provisions of the Agriculture Act of 1949, which provide for a flexible dairy price support program. The proposal we recommend to this subcommittee today continues that basic underlying authority and embraces the following principles we consider essential for any successful dairy program:

1. It allows freedom of initiative for an individual dairy producer to make his own decisions, rather than operate under any type of government-imposed restrictive system.
2. It maintains the type of program that has served producers, consumers, and the industry so well since 1949.
3. It reduces dairy surpluses by simultaneously reducing milk production and increasing consumption and achieves a reasonable balance between supply and demand.
4. It is simple to administer and easily understood by dairy farmers.
5. It provides the Secretary of Agriculture the flexibility over time to adjust, up or down, the economic signals sent to dairymen so the program will remain in balance in future years.

History provides the best justification for returning to the basic tenets of the 1949 Act and granting the Secretary of Agriculture greater discretion in establishing the dairy support price. It is recognized that since the beginning of the current build up of dairy replacements in 1978, milk production has increased 4.2 times the gain in sales. In addition, 57 percent fewer cows produced 15 percent more milk in 1982 than in 1944, a time when cow numbers were at their peak. The downward trend in cow numbers has been interrupted only twice in 39 years--briefly in the 1953-1954 marketing year and the period from 1980 to today. Looking ahead, although the total demand for dairy products will continue to increase, fewer cows will be required to supply the market. This historical data, and economic projections for the future, clearly indicate that the upward trend in cow numbers must be reversed and the long time downward trend reinstituted if dairymen are to benefit from strengthened producer prices.

It has been suggested that there are approximately one million too many cows producing milk in this country today. Any dairy program implemented must take into consideration the need to eliminate those one million cows, and provide a continued long-term decline in cow numbers. This trend will continue until the increase in output per cow is offset by an increase in total use.

A major reason for the current milk excess is the demise of the flexible support level concept that is part of the Agriculture Act of 1949 and the substitution of a fixed or guaranteed support price at a level that has encouraged herd expansion and attracted new entries to dairying. The Agricultural Act of 1949 has served the dairy sector reasonably well. Since the inception of the price support program in 1949 until 1980, CCC purchases averaged 4.8 billion pounds milk equivalent per year. This level of average purchases is not out of line with reasonable expectations of a supply/demand balance in the market. It is when the CCC purchases are viewed on an annual basis, with recent levels of 12 to 13 billion pounds annually since 1980, that the dairy program clearly becomes out of line with market reality.

Farm Bureau's recommendation reinstates the flexible price concept of the Agricultural Act of 1949 by authorizing the Secretary of Agriculture to adjust the support price annually with a floor price of $11.32 per hundredweight (3.67 percent milkfat). This program, if enacted, would mean that the Secretary would have the authority to set the support price at $11.32 per hundredweight, or at any level above $11.32; but in any event, it must be in line with the market situation taking into account net CCC purchases for the previous 12 months.

Farm Bureau contends that reinstating the flexible price support concept coupled with a $1.00 to $1.50 per hundredweight reduction in the current support price will bring about the necessary adjustments in dairy production on a gradual basis. Farm Bureau's proposal, and probably all of the other proposals, will not reduce government costs significantly during the next 10 to 12 months. It is unrealistic to expect that dairy production can be reduced dramatically in that time period by any change in the price support program, as the dairy plant in this country is producing at full capacity. The dairy barns are full of cows; replacement heifers are more than adequate; adjustments in dairy production will take time--at least 18 months if not longer.

The dairy support price has been reduced five times since the program was enacted in 1949 to adjust the milk supply to a more favorable balance with the market demand. Again, historical data indicates that these price adjustments corrected the supply/demand imbalance. A recent study done at Virginia Polytechnic Institute indicates that a $1.00 drop in the support price would reduce CCC purchases from 13.8 billion pounds milk equivalent annually, to 5.2 billion pounds annually in two years if coupled with a support program that allows the Secretary to reduce the support price, if necessary, to the point of the market clearing level, commonly referred to as the supply/demand equilibrium price. Farm Bureau's dairy proposal is designed to focus the dairy production sector on a market-oriented course over the long-term. Past and current experience and data, and as indicated, economic studies, are truly convincing that our program would work. That is why a majority of the dairy producers in this country favor some form of reduction in the dairy price support as a means of solving the current supply/demand imbalance.

Farm Bureau opposes any form of base plan, quota plan, dairy producer assessment, or producer payment incentive programs.

Those programs, which are designed to encourage a stipulated percentage cut in marketings, fail to address the fundamental problem of overexpansion in the dairy industry. Assuming that marketings were reduced under such programs, about the same number of units would continue to produce milk; and once the programs were terminated, expansion and milk output would be rekindled. Also, there are fundamental differences between the paid diversion programs for the basic commodities and the proposed programs for dairy. Current paid diversion programs for grains and cotton do not provide support programs for non-participants. Current dairy proposals envision that a form of a paid diversion program would continue to provide a support price of $13.10 per hundredweight under all milk prices. As long as the support price for any or all milk is maintained at $13.10 per hundredweight, the current overproduction problem will not be resolved.

Addressing the subject of promotion, Farm Bureau is not opposed to the promotion of agricultural commodities by producer financed programs, provided that the proposals adhere to the guidelines contained in Farm Bureau's 1983 policy on commodity promotion. A copy of this policy is attached as an appendix to this statement. These guidelines stipulate that a nationwide commodity promotion program must provide individual producers with the right to vote in a referendum on the initiation of any promotion program for a commodity which they produce. In addition, such a program must provide that for a referendum to be valid, 50 percent of the registered producers must have voted with two-thirds of those voting casting an affirmative vote. Finally there must be an opportunity for producers who do not desire to participate in the promotion program to obtain refunds of their assessements without undue difficulty or delay. Farm Bureau cannot support any proposal that mandates, by legislation, a nationwide checkoff for dairy product promotion. The AFBF Board of Directors at their March meeting made it clear that our member states want to retain the right to decide whether their state should support a nationwide assesement for dairy promotion.

It should be recognized that there is a concern among many producers as to what level a promotion program should be generated. Many of the nation's producers support statewide mandatory promotion programs. However, many of these same producers oppose a nationwide program established on a similar basis. The reasons are numerous, ranging from concern over whether fluid milk or milk products should be more aggressively promoted to loss of control as to how the funds are used.

One of the major objections voiced about the assessment is that it addresses only the supply side of the supply/demand equation; that is, none of the producer price cuts can be passed on to consumers in the form of lower retail prices.

Following this reasoning, it would appear that those who advocate maintaining the support price at its present level are inconsistent and are overlooking one of the most effective sales devices--price. A reasonable decrease in the support price has the potential for generating a sales gain at less cost to producers than could be generated with additional funds for promotion and no change in the support price.

The American Farm Bureau Federation continues to support an increase in the minimum standards for milk, established by the Food and Drug Administration, using the current California standards as guidelines. However, Farm Bureau believes that the milk standards issue should be treated separately from the dairy price support discussion, and therefore, does not recommend legislative provisions relating to minimum milk standards be included in any dairy price support legislation. Farm Bureau encourages this subcommittee to move expeditiously to conduct hearings on the milk standards issue.

In summary, the dairy industry is at a turning point. We can continue to proceed along the path of pseudo solutions to the oversupply problem, or Congress can pass dairy legislation authorizing a return to the basic principles of the dairy price support program as it was established in 1949. Anything short of this solution will not resolve the current problems facing dairy producers, and will further enhance the possibility that the dairy price support program will be lost altogether.

Thank you for the opportunity to present Farm Bureau's recommendations.

APPENDIX

Support Price Changes

Period	Cents per hundredweight
1950	-7
1953-1954	-11
1954-1955	-59
1958-1959	-19
1962-1963	-29

Production Effeciency

- In 1944, cow numbers peaked at 25.6 million and produced 117 billion pounds of milk.
- Cow numbers reached their lowest level in 1979 at 10.7 million. In 1982, 11 million cows produced 135.8 billion pounds of milk.
- During the 1970's 1.3 million cows were removed from the nation's dairy herd. Milk production in 1979, however, exceeded the 1970 level by 6 billion pounds.
- Milk production per cow averaged 12,216 pounds in 1982, up 139 pounds from 1981 and up 2,569 pounds since 1970.

AFBF Policy 533
National Dairy Program

We support a dairy price support program which will bring supplies down to demand levels.

We favor a system where the price support level would be adjusted according to the amount of net dairy products purchased by the federal government and oppose any assessment of producers by the federal government on CCC purchases of dairy products.

We urge the repeal of 7CFR(B) of the Budget Reconciliation Act of 1982.

We should work towards marketing milk on a protein content basis as well as fat content basis. We recommend the Food and Drug Administration increase minimum standards for milk using the current California standards as guidelines.

We oppose the Food and Drug Administration's (FDA) proposed standards for substitutes for milk, cream and cheese and the labeling of such substitutes. Substitutes for traditional foods should be labeled with names that make no references to the products being imitated. We do not object to new food products entering the market, however, these products should stand on their own merits.

We support research to determine a "no-effect" level for antibiotics in milk.

We support regulations which provide for and require the inspection of all imported dairy products at the port of entry. We recommend that imports of dairy products be prohibited from any nation which USDA has not determined to be free of both foot-and-mouth disease and rinderpest. We support the establishment of an import quota for casein.

Regarding bloc voting, boards of directors of dairy cooperatives should be allowed to vote for their members on milk marketing order questions, provided each member is given the right to cast his own ballot in any referenda.

We recommend that the dairy section of the Budget Reconciliation Act of 1982 be amended to delete Puerto Rico.

AFBF Policy 552
Commodity promotion

We recognize the right of producers to promote increased research, sales and consumption of the commodities they produce.

We oppose federal legislation to authorize for any new national commodity promotion program which does not provide:

(1) Individual producers the right to vote in a referendum on initiation of any promotion program for a commodity which they produce;

(2) For a referendum to be valid 50 percent of the registered producers must have voted with two-thirds casting an affirmative vote;

(3) For periodic review and referenda to determine continuation or termination of the program at intervals not to exceed five years or at any time upon petition of 10 percent of the registered producers in the area covered by the program. In referenda dealing with continuation or termination, the voting requirements for continuation shall be the same as those for initiation of the program;

(4) Opportunity for producers who do not desire to participate to obtain refunds of their assessments without undue difficulty or delay;

(5) That collected funds shall be used only for promotion, research and market development as directed by the growers and producers of these products; and

(6) That only those persons who contribute monies to the respective programs shall be eligible to serve on the boards which administer such programs.

Opportunities should be offered to producers with existing promotional programs to approve changes in operation and administration under the guidelines of the existing legislation in order that the declared policy of such legislation may be carried out.

Any commission or body created under an agricultural commodity promotion program should be required to provide complete accountability to its producers of the expenditure of funds collected from them, including funds released to any agricultural organization, public agency or private firm for promotion or research purposes.

STATEMENT OF

ROBERT J. MULLINS
DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

Mr. Chairman and Members of the Subcommittee:

I am Robert J. Mullins, Director of Legislative Services for the National Farmers Union, a general farm organization representing the interests of independent family farmers and ranchers. A substantial number of Farmers Union members are dairy farmers and, thereby, directly affected by the actions of this Committee.

It is with considerable concern that I appear before this Committee today, seeking, as we did last year, a reasonable and equitable solution to the current dairy situation. It seems as though everyone -- the individual dairy farmer, the Secretary of Agriculture and Members of Congress -- realizes that there need to be adjustments made to the dairy price support program. We in the Farmers Union appreciate the magnitude of the task before this Committee as it attempts to forge a workable solution which is at once in the best interests of the nation's dairy farmers, consumers and also acceptable to the taxpayers.

There is no argument that the cost of the dairy program to the federal government must be reduced. However, we are strenuously opposed to any attempt to reduce the cost of the program by reducing dairy farmers' incomes. We reject as counter-productive any action to lower the current price support level. We are convinced that such a move will not lower production. It may, in the long run, help reduce the number of family dairy farmers, but it will not achieve the goal of lowering production.

The National Farmers Union recently completed its annual convention in San Diego, California. During the convention, the delegates and members spent considerable time discussing the current dairy situation and the various alternatives which have been introduced. As a result of those discussions and deliberations, the delegates adopted the following policy statement on the dairy price support program:

> "We reaffirm our support of the dairy provisions of the Agriculture Act of 1949, guaranteeing milk support prices between 75 and 90 percent of parity. We believe this program serves the mutual interests of producers and consumers by assuring an adequate supply of milk products at reasonable prices while providing a degree of producer income stability.
>
> "The dairy support prices in the Agriculture and Food Act of 1981 are totally inadequate to assure the stability that has been the hallmark of the program over the years. Also objectionable is the Act's attempt to sever dairy supports from the parity index. We regard the new law as an initial step in an overall effort to dismantle the entire milk price stabilization program.

> "To prevent that eventuality, we believe changes in the dairy price support program are in order. Of the major commodity programs in the United States, the dairy program is one of few without authority for production adjustment. In the absence of such provisions, milk production has risen to burdensome levels, increasing fastest among the nation's largest producers.
>
> "To more effectively balance supply with demand, while assuring equity to the nation's dairy farm families, we urge adoption of a nationwide program of milk supply management provisions as part of the overall dairy price support program.
>
> "If direct payments are included, such payments should be subject to appropriate limitations.
>
> "We oppose the 50-cent tax and any future tax on the production of milk."

After having reviewed the various measures which have been introduced in the Congress addressing the dairy situation and assessing their acceptability among both producers and Members of Congress, National Farmers Union supports passage of S. 509, the "Dairy Surplus Reduction Act of 1983", also referred to as the Voluntary Incentive Plan (VIP).

The Executive Committee of the National Farmers Union, meeting last Friday in Denver, Colorado, issued the following statement on the proposal:

> "The VIP plan is clearly the best alternative with the best chance for success among the bills that have been introduced in the Congress. VIP is a workable plan, supported widely in the dairy industry, that would reduce costs to the government, protect farm income and avoid the senseless elimination of thousands of family dairy farmers that would be the inevitable outcome of a flat cut in price supports."

The objectives of S. 509, the Farmers Union's policy and, I believe, the Members of this Committee are similar and compatible:

> First, we must stabilize the supply of milk and milk products at levels which will adequately meet the needs of the nation's consumers;
>
> Secondly, we must maintain the level of income for dairy farmers and maintain the productive capacity sufficient to meet future needs; and
>
> Finally, we must bring the dairy price support program within acceptable federal expenditure levels.

Farmers Union believes that S. 509 deserves the careful attention of the Committee as it proceeds to mark up dairy legislation this year.

Although the issue is not addressed in S. 509, there are proposals which would incorporate a producer-funded promotion program for dairy products. If the Committee does consider such a program, I urge the Committee to keep in mind the National Farmers Union's policy on such programs:

COMMODITY CHECK-OFF PROGRAMS

"The Farmers Union will support research and promotion programs financed by deductions from the proceeds of sales by producers of agricultural commodities, only if all of the following criteria are met:

1. That disbursement of funds collected is controlled by boards of producers elected by the producers assessed, and that the operations of the program are controlled by these producer boards.

2. Approval is by two-thirds of producers voting in referendum by mail.

3. Programs being formulated or currently in operation are subject to review in a referendum every three years and subject to review at any time on the call of ten percent of producers concerned.

4. Producers be provided the opportunity to contribute or not at the initial point of collection.

5. Criminal penalties are provided against funds being used for political or lobbying activities.

6. Changes in existing check-off programs, including changes in check-off levies and/or administrative and operational changes, be submitted to the producers affected and subject to approval by a two-thirds vote.

7. After a Federal check-off program is in effect, all review referendums be financed and conducted by the Federal government.

Thank you, Mr. Chairman.

STATEMENT OF

LELAND MULDER, PRESIDENT
WISCONSIN FARMERS UNION

Wisconsin Farmers Union supports the Dairy Surplus Reduction Act of 1983 as the most effective means of reducing national milk production and bringing supply into balance with demand without squeezing thousands of dairy farmers out of business.

Delegates to Wisconsin Farmers Union's annual convention in February unanimously adopted a resolution endorsing a voluntary supply management program with incentive payments to producers to reduce milk production. The program, the provisions of which are incorporated in the Dairy Surplus Reduction Act, was developed by a broad coalition of dairy and farm groups and has unified support among the major farm organizations and dairy cooperatives in Wisconsin.

Though not endorsing any specific dairy plan, delegates to the National Farmers Union annual convention last month adopted a dairy policy statement with the following objective: "To more effectively balance supply with demand, while assuring equity to the nation's dairy farm families, we urge adoption of a nationwide program of milk supply management provisions as part of the overall dairy price support program."

In a major development on the dairy policy front, the National Farmers Union Executive Committee, meeting in Denver on April 8, endorsed the Dairy Surplus Reduction Act of 1983, sponsored by Wisconsin Senators William Proxmire and Robert Kasten.

The dairy plan, also known as the Voluntary Incentive Program, the nine-member committee said, "is workable, supported widely in the dairy industry, and would reduce costs to the government, protect farm income and avoid the senseless elimination of thousands of family dairy farmers that would be the inevitable outcome of a flat cut in price supports."

The significance of this action is that the Farmers Union has given nationwide support to the voluntary supply management plan at a time that regional differences among dairymen are threatening to prevent a consensus in dairy policy.

The National Farmers Union action comes as a breath of fresh air to dairy deliberations which of late have been clouded by stalemate. We are hopeful that other national organizations that have an interest in dairy policy will follow suit.

Agriculture Secretary John R. Block, appearing at the National Farmers Union convention in San Diego in March, told a news conference that he realized the current milk check assessment program is "despised" by all dairymen but that he was obligated to proceed with its implementation. Since then, Secretary Block has announced that the first 50-cent assessment would be imposed on April 16 and that the second assessment would be delayed until August, giving the dairy industry time to agree on an alternative program. In making the announcement, Block commented on the "complicated" provisions of the second assessment procedure as follows: "This is too much work and regulation to impose on dairy producers. If we're going to spend that much time and energy on a dairy plan, I want it to be a plan that will produce some positive and lasting results. I'm certain Congress doesn't want to make another mistake."

The Secretary has accurately described the current dilemma concerning the assessment program, but there are also soundings coming out of the U.S. Department of Agriculture that Secretary Block favors a reduction of the dairy price support level to bring milk supply into balance with demand. In this respect, there is agreement among dairy economists that it would take a milk price reduction in the neighborhood of $3.00 per hundredweight to accomplish the desired supply and demand balance. This is the route of the economic wringer that has been used in the past to force thousands of farmers out of dairying until now we have less than 200,000 dairy farmers nationally. We have not much further to go until family dairy farming is transformed into corporate milk "factories."

Challenging the dairy industry to devise a better solution to the dairy problem, Secretary Block advanced 5 "principles" which we feel are tailored in favor of a drop in dairy price supports, but which in most respects also embrace the provisions of the Dairy Surplus Reduction Act:

1. It should allow freedom of initiative for an individual dairy producer rather than operate under any type of restrictive system.

Under the Dairy Surplus Reduction Act, dairy farmers are provided the opportunity to voluntarily reduce milk production from 5 to 30 percent or stay with the present program.

2. It should maintain the type of program that has served producers and the industry quite well since 1949.

The Dairy Surplus Reduction Act does not abandon the dairy price support program adopted in 1949. It is a temporary solution to a supply and demand imbalance that is progressively getting worse. Rather, it is the Administration that has tried to undermine the parity concept for milk pricing as embodied in the 1949 act.

3. It should lower dairy surpluses by simultaneously reducing milk production and increasing consumption to achieve a reasonable balance between supply and demand.

This "principle" is aimed at achieving lower consumer milk prices. A drastic reduction in the price support level would accomplish this purpose at the expense of crippling family dairy farms.

4. It should be simple to administer and easily understood by dairy farmers.

The Dairy Surplus Reduction Act would be administered by the ASCS, using the machinery now in place for PIK and other programs. Farmers, familiar with ASCS paid diversion programs for wheat, feed grains and other crops, would be quick to understand the provisions of this plan. It is less complicated than other supply management programs for milk that have been advanced recently.

5. It should give the Secretary of Agriculture the flexibility over time, to adjust up or down, the economic signals sent to farmers so the program would remain in balance in future years.

In our view the flexibility desired is to maintain the Secretary's authority principally to adjust dairy price supports down and not up. The Dairy Surplus Reduction Act, fortunately for dairy farmers, would at least restrict this flexibility until September 30, 1985, when the Act would expire and hopefully be replaced by an equitable, long-term milk supply management program.

Statement of

DOUGLAS J. CARUSO
General Manager

of the

FARMERS UNION MILK MARKETING COOPERATIVE

Mr. Chairman and members of the subcommittee, I am Douglas J. Caruso, general manager of the Farmers Union Milk Marketing Cooperative headquartered at Madison, Wisconsin. Our cooperative represents some 6,500 family dairy farmers in the states of Wisconsin, Minnesota, Iowa, Illinois and Michigan--the dairy heartland of this nation.

I appreciate the opportunity to submit for the record of today's hearing the following statement in support of S. 509, the Dairy Surplus Reduction Act of 1983, authored by Senator William Proxmire and co-sponsored by Senator Robert Kasten.

Delegates to the Farmers Union Milk Marketing Cooperative's eleventh annual member meeting on February 26 this year unanimously endorsed this program for dairy after carefully examining all the available options to the unworkable and highly unpopular milk tax due to be implemented this Saturday, April 16.

S. 509 grew out of the Voluntary Incentive Program developed earlier this year by a diverse group of Midwest farm and dairy people who realized that a dairy program similar to the paid diversion program now in effect for most major farm commodities would most effectively restore the balance between milk supplies and demand, reduce the cost of the federal dairy program to an acceptable level, and improve dairy farmers' incomes.

The fact is, dairymen prefer a voluntary, paid diversion program to cut milk production. They clearly prefer it to the two 50¢/cwt. penalty assessments authorized under current law, and they prefer it to a cut in the support price. Neither the milk tax nor a cut in the support price offers even the slightest hope of solving today's overproduction problem, and both spell economic doom for many dairy producers.

One of the virtues of the Dairy Surplus Reduction Act is its simplicity and the ease with which this program could be put into place for both dairy farmers and the federal government. The program is straightforward and easy to understand. Producers can clearly see that participation is in their best interest.

Dairy farmers who voluntarily agree to reduce production between 5% and 30% from their 1982 base period would receive a $10 incentive payment for every hundredweight they cut back. They would continue to receive the current support price of $13.10/cwt. for the production they do market.

The program would be administered through county ASCS offices, where farmers are accustomed to dealing with federal farm programs. The county ASCS committee would be able to adjust the base levels of those producers whose 1982 production was low due to herd health problems or other unusual circumstances.

Producers would receive payment for half of their intended reduction at the beginning of the contract year with the balance due at the end of the year, provided they met their goal. Those who do not cut back by near their targeted amount would have to return their incentive payments to the government with interest.

All producers would be subject to a 50¢/cwt. fee collected to help fund the incentive payments. Those who participate would get a refund of all assessment money paid in, and then some, through the $10/cwt. payments on reduced production. The funding assessment would stand as a penalty to those producers who did not cut back.

The penalty assessment provides an additional reason to participate, yet is not large enough to create impossible barriers for those young or beginning producers who must build their herds to an economically viable level. The VIP offers the most effective "carrot and stick" combination of incentives and penalties of any dairy proposal offered this year.

We believe that the Dairy Surplus Reduction Act would achieve the needed reduction in national milk supplies, which are now 10% in excess of commercial demand, and bring the cost of the federal dairy support program down to an acceptable level.

A recent analysis by Dr. Robert Cropp, agricultural marketing specialist at the University of Wisconsin-Platteville, shows that under the VIP, the cost of the federal dairy program could be reduced from the level of $2.23 billion during the 1982-83 marketing year down to no more than $780 million for the 1983-84 marketing year if supplies are reduced by five percent. He indicated that lower program costs and greater production cuts would likely occur.

We agree with Dr. Cropp's conclusions about the VIP's probable impact on national milk output. So does a poll of dairy farmers conducted recently by Hoard's Dairyman. This scientific poll of producers in all regions of the country revealed that some 60 percent of producers would participate in a program of this type were it available, and that milk supplies would fall by 9 percent, nearly the amount of the current surplus.

Additionally, the Hoard's poll showed that producer response was quite uniform by region, disproving opponents' claim that this program is regional by nature. Outside the Midwest, the survey shows probable participation to be 56 percent in the Northeast and West and 62 percent in the Southeast.

Studies by another nationally noted dairy expert, Dr. Truman Graf of the University of Wisconsin-Madison, show that the support price would have to be cut drastically to achieve the same production adjustment and budgetary goals which could be achieved with little pain under the Dairy Surplus Reduction Act of 1983. The Graf study shows that the $13.10/cwt. support price would have to be cut by $3.70 to $9.40/cwt. to create enough additional demand for the 13.8 billion pounds of milk now in surplus. That kind of price support cut would cost the average Wisconsin dairy farmer, who produced 517,500 pounds of milk last year, a total of $19,147 a year in lost income, which exceeds their average net income.

Such a big cut in the support price would put most Midwest producers out of business and absolutely ruin the rural economy, but that's what would be necessary if the dairy problem were to be solved entirely through a reduction in the federal price support level. Support cuts in the range of $1/cwt. have been suggested, but the U.S. Department of Agriculture and others admit that this action would have little impact on the cost of the program or on the amount of milk produced.

Convincing evidence of farmer support for voluntary, paid diversion-type programs can be seen in the overwhelming response given to the Reagan Administration's paid diversion and payment-in-kind programs for wheat, feed grains, rice and cotton.

The Administration is willing to offer a paid diversion program for those other commodities at government expense because it is clear that such a program is needed to deal with the serious overproduction problems for those commodities.

By the same principle, the government should be willing to offer a similar program to the nation's dairy farmers, especially when our producers are willing to accept a self-funding provision which significantly lowers government costs.

The Dairy Surplus Reduction Act is clearly in the best interests of the nation's dairy farmers and consumers and the federal government. The VIP will solve the problem of overproduction which plagues the dairy industry, and will bring the cost of the federal dairy program down to an acceptable level. It will improve the income of hard-pressed dairy producers, yet will not increase the cost of dairy products to consumers. And by helping thousands of struggling dairy farmers hang on during the necessary period of production adjustment, this program will help restore the strength and vitality of the nation's troubled economy.

STATEMENT OF EDWARD ANDERSEN, MASTER, NATIONAL GRANGE

I am Edward Andersen, Master of the National Grange, with headquarters at 1616 H Street, N.W., Washington, D.C.

The National Grange is a general farm organization with membership in 41 states. Thousands of our members from New England to the West Coast are engaged in the dairy industry. Most of our dairy members have small to medium-sized dairy farms with herd size ranging from 30 to several hundred milk cows. They are family dairy enterprises, embracing father-son partnerships, incorporated family dairy farms and sole proprietorships. They do not have large amounts of available capital and for the most part, are heavily financed, depending on the monthly milk check, to meet both their operating costs, servicing their debt and to live.

The Grange, as a general farm organization representing many dairy farmers, has been concerned over the increased cost of the dairy price support program and the mounting surpluses in CCC storage. It was because of this concern that the National Grange Master, Edward Andersen, appointed a National Grange Dairy Committee in early 1981 to study the various proposals and recommend the direction the Grange should follow in seeking administrative and legislative changes in the dairy price support program.

The Committee was composed of operating dairy farmers from the various dairying regions of the country. The members: Al Franklin, Battleboro, VT; Kenneth Rhein, Brownsville, WI; Perry Kasel, Nampa, ID; and was chaired by Rodman Myers, Thurmont, MD.

The Committee was in complete agreement that the ills which affect other parts of the farm economy are attracting resources into milk production and keeping resources in milk production which, under normal circumstances, would be used for other purposes. Too many heifers are accumulating for lack of alternate markets, and cows which should be culled are remaining in the herd. To a very large degree, the problems in agriculture have been accumulating into the dairy industry.

Th Committee's first action was to oppose a cutback in the level of price supports below the present $13.10 per hundredweight. We have heard this simplistic solution to the problem of overproduction in the dairy industry for years. It has not worked in the past, is not working now, and cannot work in the future.

I hasten to point out that price supports were not raised in April of 1981 and were cut to $13.10 per hundredweight in the 1981 farm bill and milk production, although slowed for various reasons, continues to increase. This, in our judgment, tells us two things - first, that dairying is the most viable alternative to depression level crop prices, and until recently, low cattle prices; and second, that dairy farmers must continue to produce to meet their cash flow problems. It does not necessarily tell us that the price level is too high. It has been estimated by Bill Knox, editor of Hoards Dairyman magazine, that given the surplus situation, we have to cut the current rate of production. It would take a price drop of from 25 to 40 percent, or a price collapse of from $3.25 to $5.25 per cwt, to solve the surplus problem through the price support route. The impact on a dairy farmer with a 50 cow herd and marketing 600,000 pounds a year would be a drop of about $24,000 in gross income if the price were cut by $4.00 per cwt. No one is proposing a cut in price support of that magnitude, but I believe it illustrates that the answer to the present dairy situation does not entirely lie in lowering the price support level below the present $13.10 per cwt.

The National Grange opposed the Administration's program when it was first presented in the legislation sent to this committee in early 1981. We opposed the final bill as reported from the Conference Committee, not only because of the dairy price support level, but because it did not address the needs of U.S. agriculture. It was a farm program based on budget figures and not the economic situation facing the nation's producers of food and fiber.

The Grange also has strongly opposed the so-called compromise dairy program that came with the Budget Reconciliation Act of 1982 -- the 50 cents per hundredweight dairy assessment program. Barring any further court delays, the first assessment is scheduled to be collected starting April 16th. The Secretary of Agriculture has stated that the second 50 cents assessment will be postponed until August 1983 to give Congress time to act on a new dairy program. We believe the assessment program is further proof that a cut in price supports does not lead to reduced production. Even though the revenue raising program has never been fully in place, we have seen dairy farmers increase production to maintain the cash flow necessary to service debt and to meet operating expenses.

Now we are meeting once more to consider further changes in the dairy support program. The Grange agrees that changes in the program are in order, but we also believe for reasons already cited, that cutting price levels even further will not solve the overproduction problem. In addition to the reasons we have already given for the overproduction in the dairy industry, there is one more that we believe is instrumental in attracting new resources into dairying, thereby increasing unwanted production.

According to a study conducted by the Economic Research Service, USDA entitled, "The Effects of Tax Policy on American Agriculture," the dairy industry, along with other livestock operations, provides opportunities for high bracket taxpayers to shelter income. The sheltered income might be professional fees earned by a doctor or a lawyer or it might be income earned on the farm. The competitive advantage flows to the high-bracket taxpayer whether the high bracket is built by bulls on Wall Street or bulls in the barnyard. You may have noticed recent ads in the Wall Street Journal offering the leasing of dairy cows as attractive tax shelters. One agency claimed to have over 70,000 head leased to dairy farmers.

Other tax provisions in the tax code such as investment tax credits on single purpose buildings and equipment and accelerated depreciation allowances have attracted new resources into dairying. We are not passing judgment on changes in tax laws, only pointing out that they have been part of the reason for increased milk production.

We realize that tax policy is not under the jurisdiction of this subcommittee, but we would urge the Congress seriously consider that the appropriate committees having such jurisdiction conduct oversight hearings into the question of tax policy and its effects upon U.S. agriculture.

The National Grange Dairy Committee met for a second time on April 7, 1982 to review our dairy policy. The first program, adopted by the Committee in 1981, tied the price support to anticipated purchases made by the Commodity Credit Corporation. This program was rejected by Congress and resulted in the dairy program that became part of the Food and Agriculture Act of 1981. This program was rejected by the Grange as it relied only on price to control an open-ended production program.

The current Grange program, which the Committee recommended in 1982, was adopted by the National Grange at our 116th Annual Meeting held in Providence, Rhode Island in November of 1982.

The Committee considered at length the various base plans, cow culling and other plans being offered as solutions to the present problem facing the dairy industry. It was determined that any program being offered should take into consideration the utilization of the mounting surpluses by increasing dairy product promotion and stabilizing milk production through a disincentive for increased production and incentive for reducing the national surplus.

The Dairy Committee cautioned that care must be taken not to cut production so drastically that demand begins to exceed supply. This would result in a rapid increase so drastically that demand begins to exceed supply. This would result in a rapid increase in the retail price to consumers and would have numerous adverse impacts. Dramatically higher prices would result in lost customers, increased imports and an increase in the use of imitation dairy products.

The Committee expressed their support for a dairy price support program that will not utilize price as the sole criteria in reducing the current oversupply. The support price alone did not create the present surplus, but it is more the result of a depression in the other segments of U.S. agriculture. As long as the milk-feed price ratio is favorable, dairy farmers will continue to keep low producing cows and force feed high producers, thereby adding to the mounting surplus. Increased feed grain and cattle price would not only aid the producers of those commodities, but would have a positive effect on reducing milk production. The Committee called on the Secretary of Agriculture to use the discretionary authority provided him in the Food and Agriculture Act of 1981 to increase farmer's income for 1982.

The Dairy Committee generally favored a dairy price support program that would contain provisions to restrain production, such as quotas on a national excess base plan.

The policy adopted by the National Grange in 1982 is attached as Appendix A & B. Appendix A is a National Dairy Product Promotion Program and B is a Dairy Stabilization Price Program. In short, our plan is an adaptation of the plan developed by the National Grange Dairy Committee during 1954-58. That committee was composed of not only Grange leaders, but representatives from the present dairy industry, such as Pat Healy, Chief Executive Officer of the National Milk Producers Federation, and Bill Knox, Editor of the Hoards Dairyman. It was that original work that has been the basis for the self-help dairy stabilization program before this committee today.

The National Grange's support for our plan is not set in concrete. We will support any plan or combination of plans that meet the criteria of balancing supply with current demands, provides adequate income incentives to gain the necessary compliance to make the self-help program work, maintains dairy farmers' income at the level necessary to sustain the dairy industry, distributes the cost of the self-help dairy equally to all producers in proportion to their production, reduces the cost of the program to the U.S. Treasury, and contains a mandatory assessment on all milk marketed for promotion and stabilizes prices to producers and consumers.

Such a program should contain: (1) strong economic penalties to discourage production over the present demand; (2) incentives to reduce or maintain base period production, including a direct payment for production reduced below a specific level; (3) new producer provisions; (4) a base period based on average annual production during past three years ('80, '81, '82); and (5) contains a sunset provision for the emergency dairy program.

In conclusion, Mr. Chairman, the National Grange will oppose a program that relies only on a cut in support price to curtail excess production. We also will oppose a dairy promtion program that allows producers to opt out of the assessment. We strongly believe that it should be a mandatory promotion program.

We realize that base plans are not popular with the Administration because they are complicated to administer and the base becomes capitalized into the dairy enterprise. Nothing could be more complicated than the Payment-In-Kind (PIK) program and it also goes against the agricultural policy set by this Administration. But the program was presented by the Administration because of the crisis in the farm economy. We believe there is a crisis in the dairy industry caused in part by the actions of the government. Therefore, we submit that the dairy industry needs the supply management of a base plan along the lines suggested by the Grange and the dairy industry. We believe it will take two years to accomplish our goal. After that, the industry can return to a price support program based on a certain percent of parity. Such a program has served the industry and the consumer well.

It is the Grange's sincere desire to assist in the development of a dairy program which the majority of the industry can support. Although this is a difficult task, we believe that it is possible. But it will only be possible if the Congress, the Administration, and the leaders in the industry set about the task in good faith. We are committed to this end. Thank you.

APPENDIX A

I. National Dairy Product Promotion Program

The National Grange will support legislation to authorize the establishment of a National Dairy Product Promotion Program.

The program would be financed through a $.05 per hundredweight mandatory check-off on all milk marketed. The plan would be submitted to all dairy farmers in a nationwide referendum. In such a referendum, members of cooperative associations would be allowed to vote as a unit (block voting). If this were done, the cooperative's Board Directors would be required to notify the membership of how their vote was cast and the reasons for such a vote. At the same time, opportunity would be provided for the individual member to cast a separate ballot. The program would go into effect only if approved by a majority of those dairy farmers voting in the nationwide referendum.

The program is to be administered by a Board of Directors compromised of dairy farmers. The Board would be appointed by the Secretary of Agriculture from nominees submitted by producers. Board membership would be on a geographic basis to assure representation of all milk producing regions. The program would be directed toward increasing sales and consumption of all dairy products. Emphasis would be on those products which have been purchased by the Commodity Credit Corporation, under the price support program.

APPENDIX B

II. Dairy Stabilization-World Price Program

The National Grange will support legislation to establish an amended version of the plan first proposed by the National Milk Producers Federation (NMPF). The Grange amendments would provide for (1) New Producer Provisions, (2) Production Disincentive, (3) Reduced Production Incentive, and (4) Revised Federal National Milk Standards.

As amended, the program meets the objectives of the National Grange and would (1) reduce the cost of the program to the U.S. Treasury; (2) preserve the present price support program based on the parity concept; (3) establish a National Dairy Board to help administer the program and assume responsibility to dispose of surplus production; (4) preserve the government role in administering the purchase of surplus dairy products through the Commodity Credit Corporation; (5) call on dairy farmers to help finance the surplus removal program; and (6) stabilize milk and dairy product prices in the best interest of farmers and consumers.

Enabling Legislation

The Agricultural Act of 1949 would be amended for a time specific period to authorize the Dairy Stabilization World Price Program.

The legislation would provide for:

1. A support price of $13.10 per hundredweight of milk for fiscal year 1983. In subsequent years the support price would be established to reflect the level of parity which $13.10 represents at the beginning of FY 1983, or higher if necessary to assure an adequate supply of fresh, wholesome milk.

2. A Dairy Board appointed by the Secretary of Agriculture and having major responsibilities for administering the program.

3. Government financing sufficient to purchase and manage up to the equivalent of 5.0 billion pounds of milk supply. (The amount presently used in domestic feeding programs, plus the milk equivalent of dairy product imports.)

4. Producer financing sufficient to purchase dairy products in excess of 5.0 billion pounds of milk equivalent.

5. A producer assessment percentage related to the national surplus. (The national surplus is that amount of milk produced in excess of commercial demand, plus the government reserve of 5.0 billion pounds of milk equivalent.)

6. The distribution, at the direction of the Dairy Board, of all dairy products purchased under the program.

7. The Dairy Board to have control of all import licenses issued by the Department of Agriculture should the President of the United States determine to take emergency action to temporarily raise import quotas on dairy products.

Program Administration

The Price Support Level - Two-Tier Pricing System

The support price would be fixed at a level that would save farmers from a drastic price drop ($13.10 through FY 1983, thereafter at the level of parity represented by $13.10 at the beginning of FY 1983, approximately 67-68 percent of parity, or higher if deemed necessary to insure an adequate supply of fresh, wholesome milk).

All milk produced for commercial use, plus the 5.0 billion pounds of milk equivalent purchased by the government, would be paid for at the Tier I price as established above. All milk produced in excess of this amount would receive a price related to the world price (approximately $6.00 per hundredweight). The greater the surplus, the greater would be the assessment and the portion of milk to which it applies. When the decline in production brings the excess back to the 5.0 billion pound annual level, the assessment would be eliminated.

A - New Producer Provision

The National Grange realizes that any dairy program must allow for entry of new producers. However, the Grange is strongly opposed to allowing new producers to enter the dairy industry during this time of high program costs and amounting surpluses. We therefore propose the following provision as a part of the new Dairy Stabilizing Program: (1) Until the National Dairy Board determines that demand is within two percent of supply, a new producer would receive the Tier I price on 60 percent of his milk production and the Tier II price on his remaining production for that year. Following a new producer's first year of production, he shall be treated the same as an established producer.

B - Production Disincentive Provision

A two-tier price program, in order to be successful in controlling excess milk production, must contain a provision to discourage increased production by producers receiving the Tier I price.

Example: If a dairy farmer was producing 500,000 lbs. of milk annually, and it was determined that there was 10 percent surplus milk, this producer would receive the Tier I prices ($13.10/CWT) on 450,000 lbs, and the Tier II price on 50,000 lbs. The next year this producer could add cows and increase his production to 800,000 lbs. of milk annually. If the surplus percentage remained at 10 percent, this producer then would receive the higher Tier I price on 720,000 lbs. of milk and the Tier II price on 80,000 lbs. He would be rewarded for concontributing to the already existing surplus.

To remove this incentive to increase production, the National Grange recommends that: Until such time that the Board determines that supply is within two percent of demand, the following provision would apply: (1) In any quarter that a producer increased his production over the corresponding quarter of the previous year, his percentage of price reduction shall be the national average percentage reduction plus a reduction equal to the amount of his increased production for that quarter. (The increase in production plus the national average surplus percentage would all be subject to the Tier II price.)

C - Reduced Production Incentive Program

To encourage producers to cut back on production, the National Grange recommends that: (1) A dairy producer who can prove that he has decreased his production below that of the corresponding quarter of the previous year may file for a rebate of his surplus production assessment equal to the amount of his reduced production. However, if if a dairy producer can prove that his annual production in the year of enactment of the Dairy Price Stabilization Program, and in any subsequent year, is below that of the previous year, including any national average percentage reduction announced by the Board, he shall be exempt from the nation surplus assessment.

III. National Milk Standards

The National Grange is in complete agreement that the national standards for milk should be reviewed and adjusted to reflect higher butterfat and solids-not-fat content. Currently, the minimum national standards for milk are:

	B.F.	S.N.P.
Whole Milk	3.25	8.25
Lowfat	.5 to 2.0	8.25
Nonfat	0 to .5	8.25

The National Grange endorses the following increases in minimum national standards:

Whole Milk	3.5	8.7
Lowfat	2.0	10.0
Nonfat	.25	9.0

IV. Financing

The program would be financed by:

(1) Federal government funds sufficient to cover the cost of

purchasing and managing dairy products made from up to 5.0 billion pounds of milk annually.

(2) Dairy farmer funds, as necessary, to purchase, manage and dispose of dairy products made from more than 5.0 billion pounds of excess milk. The dairy farmer funds would be derived from the difference between the Tier I and Tier II price. The difference between the two prices would be remitted to the Commodity Credit Corporation (CCC) by the first purchases of milk from farmers. Monies collected would be used by the CCC to support the price of milk at the Tier I price of $13.10 per hundredweight or at that percentage of parity, $13.10 would represent October 1, 1983.

(3) By funds realized by the Board from the sale of dairy products both domestically and abroad.

V. Dairy Board

A Dairy Board nominated by producer representatives and appointed by the Secretary of Agriculture would be assigned major responsibilities for administering the program. The powers and duties would be:

1. Determine producer responsibility, based on estimates of production, consumption and CCC purchases.

2. Establish a uniform amount per hundredweight of milk to be assessed on surplus production and adjust such rate as necessary to carry out its responsibilities without accumulation of access funds. Determine procedures to be followed by first handlers in adjusting assessments on producers who have increased or decreased production in agreement with provision of the Act.

3. Dispose of dairy products acquired by USDA to support the price of milk, including:

   a. Sales for unrestricted use.
   b. Transfers to government and other agencies for food program use.
   c. Sales to commercial exporters or payments to commercial exporters on products that otherwise would be purchased.
   d. Sales to foreign governments.
   e. Sales or donations for special uses, or to prevent spoilage.

4. Consult with the Secretary of Agriculture on the operations of the price support program.

5. Allocate import licenses assigned to it by USDA in the event the President takes emergency action to temporarily increase import quotas on dairy products.

VI. Secretary of Agriculture

The Secretary of Agriculture would perform all duties incident to the operation of the price support operation as has been customary, except:

1. He would have no discretion in setting the level of price support. The level of price support would be established by Congress in the enabling legislation.

2. Those duties specifically assigned to the Dairy Board.

The Secretary of Agriculture would:

1. Serve as a member of the Dairy Board and cooperate with it in the performance of its duties.

2. Provide the Dairy Board with access to all pertinent economic and financial data and information possessed by USDA and make all USDA personnel available to consult with or advise the Dairy Board in establishing, adjusting or eliminating assessment rates and in carrying out other duties assigned to it.

3. Collect assessments as directed by the Dairy Board from all parties responsible for making payment to dairymen for milk, and directly from farmers who produce and market their own milk (producer-handlers).

4. Provide audit service to determine that all assessments have been properly made and transmitted to him.

5. Establish the terms and conditions under which USDA would purchase dairy products including grading standards, container specification, payment, and shipping instructions. Provide a grading service.

6. Buy dairy products through CCC.

7. Deliver, at the direction of the Dairy Board, all obligations committed by the Dairy Board in carrying out its responsibilities.

STATEMENT OF ED GRAF, CHIEF ASSISTANT TO THE PRESIDENT, NATIONAL FARMERS ORGANIZATION

Mr. Chairman and members of the Sub-Committee. We appreciate the opportunity to appear before you on this vital and timely issue.

My name is Ed Graf and I am the Chief Assistant to the President of the National Farmers Organization with its national office located in Corning, Iowa. Accompanying me are Mr. Al Smith, a dairy farmer and New York State President, Mr. John Howlett, a dairy farmer and National Director from Kentucky and Mr. Charles Frazier, Washington Office Director.

The National Farmers Organization is an association of farmers and ranchers located throughout the United States. The National Farmers Organization bargains for the sale of the agricultural products produced by its members.

One of the principal commodities produced by our members is fluid milk. Our dairy producer members are located in such states as Minnesota, Wisconsin, Iowa, Nebraska, South Dakota, Illinois, Michigan, Ohio, Kentucky, Tennessee, Kansas, Indiana, Pennsylvania, Missouri, New York, Massachusetts, Maine and Vermont. I am appearing at this hearing in behalf of these dairy producer members.

It is the position of the National Farmers Organization that any dairy legislation enacted to alleviate the burden presently being placed upon the Commodity Credit Corporation meet the following criteria:

1. Must not reduce gross income to dairy farmers.
2. Must reduce production.
3. Must stay within the budgetary requirements.
4. Must contain a paid incentive to dairy farmers who reduce production below an established base.
5. The price support level must be related to parity.
6. It must be broadly acceptable to dairy producers.

The "Dairy Surplus Reduction Act of 1983" (H.R. 1528) and its Senate Counterpart (S. 509) commonly referred to as the "voluntary incentive plan" presently before this Committee meets the necessary criteria which must be contained in any dairy legislation and is supported by the National Farmers Organization. The National Farmers

Organization has been working with a coalition of farm organizations to formulate this voluntary incentive program for several months.

We have held numerous meetings with dairy producers attended by both our members and members of Mid-Am., AMPI, D.I., and Farmers Union along with independent producers where we have discussed in detail the proposed voluntary incentive plan. Members and staff of the National Farmers Organization have also participated on numerous discussion panels along with various farm organizations explaining proposed legislation to dairy producers. We have found the voluntary incentive plan to be easily understood and widely accepted by dairy producers. Any dairy plan must be easily understood and broadly accepted in order to have the necessary participation.

The benefits to dairy farmers and consumers under the voluntary incentive plan are numerous. For instance, participation in the plan is voluntary, not mandatory like some plans. Dairy Farmers are paid an incentive to reduce production, and may contract with ASCS as to how much they will reduce production with limits of not less than 5 percent not more than 30 percent. A stabilization fee of 50 cents per cwt. on all milk produced will be uniform to all dairy producers. It is understood by dairy producers and simple to administer. A stabilization fee will insure a reduction in the cost to operate the Support Program and will generate the funds necessary to make the incentive payments to the dairy producers who reduce their production. A dairy producer participating in the voluntary incentive plan can maintain his present gross income and his cash flow will not be adversly affected due to receiving one-half of the incentive payment within 30 days after the acceptance of his contract by ASCS.

As we understand the National Milk Producers Federation Plan, it contains the concept of an incentive payment to producers who reduce production which concept we support. If a dairy farmer produces the same as last year, there is no assessment, this plan in its present form will not reduce milk production. The procedure for calculating the assessment rate is so complex and confusing because the assessment rate is not uniform on the amount of milk a dairy producer produces over his base that it will not be understood by dairy producers. Every dairy farmer will have to be monitored individually by the organization paying producers to determine the amount of his assessment. When this plan was presented to dairy producers along with other plans, the voluntary incentive plan was accepted by a majority of the dairy producers. The National Milk Producers Plan will not be easily understood by dairy farmers and thus will not be accepted.

Any legislation that reduces the present level of the Support Price will not work. This has been proven in the grain program. Every time the loan level for producers of feed grains was not increased to reflect increased production costs it resulted in greater production not less production. Grain producers had to produce more grain to maintain their cash flow. The same thing will happen in the dairy industry if the Support Price is lowered.

Let us learn from the grain program. Grain producers had very little incentive to participate in the loan program, but look what happened when an attractive paid diversion was instituted. There was great participation by the grain producers. The same will happen in the dairy industry if the "Voluntary Incentive Plan" is adopted.

If the Price Support is reduced, then all cheese processors that are presently inventorying their own product will immediately sustain a substantial monetary loss. If the Price Support is reduced $1.00 per hundredweight that represents a reduction of 10 cents per pound on all commercial holdings of cheese.

In dairy unlike grain the dairy producer will fund the program.

The National Milk Producers Plan provided for a mandatory 15 cents per cwt. assessment for promotion of dairy products. The National Farmers Organization strongly opposes any mandatory assessment plan for promotion of dairy products.

We do not oppose advertising as such, but feel it should only be adopted if dairy farmers in a national referendum approve it. Any legislation relating to a dairy promotional plan, before it comes effective must be put to a producer referendum with 1 vote per producer and the assessment must be refundable on a monthly basis to any producer not desiring to participate. We cannot support any legislation that allows cooperatives to bloc vote on behalf of its members. The democratic process of one vote for one dairy producer must be followed. It is only fair to let dairy farmers decide for themselves whether they want a promotion program or not.

The dairy provisions enacted into law last year by the "Omnibus

Reconciliation Act of 1982" have been strongly rejected by dairy farmers. This legislation will not accomplish the purpose for which it was enacted, that is to reduce milk production and help off-set some of the costs of the Support Program. The fact is the present legislation will have the opposite effect and will increase milk production in order for dairy farmers to maintain their present cash flow level to meet their existing debt load. The present assessment provisions are devastating to dairy farmers, and many dairy farmers will not be able to continue in business, particularly young dairymen and dairymen that are highly leveraged.

For these reasons it is imperative that new dairy legislation be enacted immediately that will not put farmers out of business nor increase the national milk production. Legislation is needed that will allow farmers to maintain their gross income while reducing milk production.

The National Farmers Organization strongly supports the concepts of the voluntary incentive plan which is presently before you for consideration, contained in H.R. 1528 the "Dairy Surplus Reduction Act of 1983", and S. 509.

TESTIMONY OF ELLEN HAAS

EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Mr. Chairman, good morning. My name is Ellen Haas and I am Executive Director of Public Voice for Food and Health Policy. Public Voice is a new consumer organization which conducts research, education and advocacy programs in the areas of food, nutrition and health policy. Presently I also serve as President of the Consumer Federation of America, the nation's largest consumer organization representing over 200 state and local groups nationwide. I am happy to be here this morning to present our views on the problems of the dairy price support program and what needs to be done to correct these problems.

As members of this Subcommittee know, I and others at Public Voice have long maintained a strong interest in national dairy policy. We firmly believe that dairy products have no nutritional equal. For this reason, most of the times we have come before this committee we have urged that policies be adopted which would enhance consumer access to dairy foods and assure that these products continue to remain available at reasonable prices. For this same reason, we have continued to support federal involvement in dairy policy in order to stabilize the price and supply fluctuations inherent in this industry and to provide a reasonable amount of financial security to dairy producers, in order to guarantee that consumers continue to have adequate supplies of dairy products.

Unfortunately, for the past few years the dairy program has become greatly imbalanced. Supply today vastly exceeds demand and the government is being required to purchase an enormous amount of surplus dairy products. Thus far, inadequate channels for distribution to the needy have been found. Therefore, the vast majority of these products sit in government warehouses. This is wasteful and inefficient and it's costing the federal government several billion dollars annually.

The imbalance and the excessive cost of the dairy price support program in large part has been the result of policies over the past six years which caused price support levels to be set higher than necessary to call forth supply adequate to meet consumer needs. Principal among these policies were requirements that an inflexible minimum price support level be maintained at far too high a level, and that an inflationary parity index continue to be used for adjusting price support levels. In the 1981 Farm Bill the dairy price support level was wisely unhooked from the parity index. Although the rate of surplus dairy products accumulation by the federal government has not decreased since that time, it is undoubted that had this move not been made, the surplus problem would be far greater than it is.

Because, surpluses have continued to build and federal costs have continued to grow, this Subcommittee last year recommended, and the Congress adopted, a plan to reduce milk production through a sequence of two fifty cent assessments on producer prices depending on levels of milk produced. As this committee knows, these assessments are not now in effect and thus the projected reduction in dairy surpluses has not occurred. At this point we must decide whether it is a good idea to try to proceed with the assessment or find another solution to the problem with which we are all faced. We firmly believe that we should look toward another solution and that the most straightforward and effective solution available would be to simply reduce the level of price support.

Although the Administration did not follow the proper procedures we recognize that producer dissatisfaction with the assessment has been the real reason why it has not been put into effect. This dissatisfaction has also given rise to the deceptively simple idea of merely banishing the assessment -- a proposal made by Senator D'Amato in his bill S.498 and one which likely has considerable support among dairy producers. Yet we would encourage members of the subcommittee to remember that the assessment was put in place to deal with the massive problem of dairy overproduction. We could simply get rid of the assessment but to do so would be to do nothing about the surplus problem and to simply throw up our hands in disgust with this 2.5 billion dollar annual program. Decisive action to reduce dairy surpluses is just as necessary today as it was when the assessment program was adopted last year.

Other approaches to dealing with the surplus problem have been proposed, but by and large, they all create more problems than they solve.

One alternative involves what is known as a "base plan" approach, which would allow producers to be paid the current support price of $13.10 per hundredweight of milk for most of their production, but which would pay them a lower rate for the balance of milk produced. This approach would result in some price reductions to producers, just like the assessment, and thus would be expected to result in some decline in production. Yet it would involve no reductions in price for consumers and thus would result in no increase in consumption. In addition, the base plans would require a wholly new bureaucracy to administer and an excessive amount of time to become operative. It could also result in a situation where current production patterns are "frozen in place" thus making it difficult for economic resources to shift from less efficent to more cost-efficent dairy producers. In addition, a very real consumer concern is the fact that if, for any given year, total production were underestimated and base plan percentages were set at too low a level, a milk shortage could result sending consumer prices higher.

Another alternative would involve a reduction in the support price for manufacturing grade milk only. (The price support level would be lowered but Class I differentials for fresh fluid milk would be raised by the same proportion.) Yet a one dollar reduction in the support level would result, because of the nationwide utilization rate of milk, in only about 50 or 60 cent per hundredweight decline in producer prices. Thus there would be some help in increasing consumption, although neither effect would be as great as simply reducing the support by a dollar and not adjusting differentials to compensate.

A third approach, which is often proposed in conjunction with the previous two, involves the use of producer assessments which are specifically intended for use in advertising and promotion. These proposed assessments are being advanced in order to raise consumption, but we believe it is an improper role for government to tax consumers for the purpose of conducting proprietary advertising campaigns which can be, and are now being, conducted by the industry on its own.

Public Voice believes that the most effective, efficient, straightforward and equitable manner through which the imbalance in the dairy price support program can be corrected is to reduce price support levels by at least one dollar per hundredweight and perhaps a dollar and a half if it became necessary that a dollar were insufficient to sustain a reduction. This approach addresses the element of the program which we believe was the number one reason why surplus capacity was built up in the dairy sector, it involves a solution which provides a major incentive for consumers to increase their purchases of dairy products and it would involve virtually no additional administrative expense, burden or bureaucracy to effectuate.

This approach is embodied in S.658, a bill sponsored by Senator Hawkins. As the plan could be set in motion immediately, budgetary savings would soon begin to accumulate as production adjusted downward and consumers responded to lower prices by purchasing more milk products. From the experience of retailers in the Washington market area (which recently has seen intense price competition for dairy products) we feel confident that a 10% reduction in milk prices would result in significant increases in consumption. Beyond solving the immediate problems of the price support program, we believe that such increases in consumption should be the long term goal of the dairy industry in general. Reducing the price support level would undoubtedly have this effect.

Mr. Chairman, the dairy price support program today is costing the federal government about 2.5 billion dollars annually. This expense is demonstrative of the tremendous imbalance between supply and demand for dairy products. This imbalance is the direct result of the dairy price support level that has been too high, thus we believe that the most direct and effective manner to reduce this imbalance and to bring supply back in line with demand is to simply reduce the price support level -- as S.658 would do. To merely eliminate thr producer assessment would be irresponsible because it would leave the problem unattended.

Consumers clearly prefer direct reductions in support prices so that the prices they pay at the grocery store are similarly reduced and their ability to purchase nutritious dairy products is enhanced. For these reasons do we believe the solution which serves all of the interests of the dairy sector -- producers, processors, consumers and government -- is to reduce price support levels by a dollar per hundredweight effective immediately, and to provide authority to the Secretary of Agriculture for a further 50¢ reduction as of October 1 if production has not yet begun to decline. As production responds to the reduced producer price and as consumption begins to increase, the surplus will diminish. At that time, Mr. Chairman, we would suggest that this committee reconvene to consider the development of a price support index which either tracks dairy production costs or is specifically designed to set support prices so that the level of supply called forth is roughly equivalent to consumer demand in the marketplace. It is through the development of this index that the problems we have recently experienced can be avoided in the future and producers as well as consumers can continue to benefit from a stable and secure program for the production of this nutritionally unequaled product.

Mr. Chairman, thank you for the opportunity to present our comments. We are happy to respond to any questions you or any members of the Subcommittee may have.

STATEMENT OF ROBERT J. WILLIAMS, EXECUTIVE DIRECTOR, THE TRADE ASSOCIATION OF PROPRIETARY PLANTS, BARABOO, WIS.

No one can deny that the dairy industry is in an intolerable surplus situation, requiring an effective program to reduce production. The Government and consumers will not continue to spend $2.4 billion as they did in 1982 with production and costs continuing to climb in 1983. Unless a suitable dairy program is passed soon the dairy industry faces the distinct possibility of losing the price support program.

Any new dairy legislation should meet the following requirements:

1. Is simple to understand and administer
2. Is voluntary involving a minimum of Government regulation.
3. Is effective in reducing production and Government price support costs.
4. Is temporary.
5. Is equitable to all regions in the U.S.
6. It does not destroy the farm production capacity and assures consumers a reasonable price for milk and dairy products and an adequate supply.

The three main types of dairy legislation being considered at this time are : cutting the price support level $1.00-2.50/cwt., the National Milk Producers' Federation's two tier pricing program and the Midwest's voluntary incentive program.

Cutting the price support program rates high in simplicity and in being equitable to all regions. It has major drawbacks in not being voluntary, would not cut production and costs fast enough and would be punitive. It would jeopardize the future farm productive capacity. A drop of $2.50/cwt would eliminate young and highly leveraged farmers. It would reduce dairy farm values. Ultimately it would mean substantially higher inflationary prices to consumers.

The National Milk Producers' Federation plan briefly includes the following major provisions:

a. Secretary estimates total production necessary to meet domestic market needs including 2.5 billion pounds for

Government use. The difference between this estimate and average production of 1980-81 and 1981-82 is declared National surplus. A base is then allocated to each producer which would be approximately 90% of present production.

b. The present $13.10/cwt would be paid on base milk. A much lower price would be paid for pounds of over-base milk not to exceed a total reduction of more than $1.00 on all the milk marketed by a producer. The difference between $13.10 and the producers lower price is paid to C.C.C.

c. C.C.C. would pay farmers who reduce production below base $10.00/cwt.

d. Producers get certification of their base from their local ASCS office.

e. The program includes a mandatory 15¢/cwt. deduct for promotion.

In evaluating this program one would have to conclude:

1. To say the least it is not simple to understand and administer. Plants will have to provide many farmers with assisstance in determining 1980-81 and 1981-82 volumes marketed which the farmer must take to ASCS to get his base. ASCS has to notify dairy plants of each producer's certified base. The dairy plant office, fieldmen and truckers will be deluged with questions regarding the program and why their checks amounted to such and such.

   The plant will, in effect, be calculating and paying each farmer a different price/cwt. depending on the individual producer's base. It will be difficult for farmers to compare competitive pay prices. The relatively few plants which use computers will have to spend dollars to re-program their payroll. Those without computers will have substantially higher accounting fees and workloads.

   In effect, the plant operator handles Government money, (over-base dollars) so may have to be bonded. Attorneys, accountants and new Government employes may end up to be the major beneficiaries of this administrative monstrosity.

2. The National Milk program is certainly not voluntary nor does it involve a minimum of Government regulation. Every farmer has a base. He participates whether he wants to or not. The only aspect of being voluntary is that he can decide whether to increase or decrease production. Farmers will be angry at the Government and dairy plants every time they receive their milk check.
3. The program would be effective in reducing production and Government costs (excluding administrative costs).
4. This program may not be temporary. It contains a provision that it terminates Dec. 31,1985 unless approved to continue by 50% of the producers voting in a referendum conducted by the Secretary during October 1985. Naturally, Cooperatives can block vote their members.
5. The program is equitable to all regions of the U.S.
6. The program does retain the dairy farm production capacity which assures a future adequate supply of milk and dairy products to consumers at reasonable prices.

The third approach to solving the dairy surplus problem is the Midwest Voluntary Incentive plan being considered by Congress. Briefly this plan includes:

a. Maintaining the present price support level of $13.10
b. A 50¢ assessment (which will go into effect April 16th) IT will be used to finance incentive payments to farmers who voluntarily reduce production 5-30%. The assessment is presently scheduled to go to CCC to offset price support costs.
c. C.C.C. pays farmers $10.00/cwt. who voluntarily reduce production 5-30% below 1982. One half the contracted incentive payment is made 30 days after signing up at the ASCS office. The balance at the end of the year.
d. Contracts are tied to the farm and contracting farmer. A seller could transfer the contract to the buyer of the farm with ASCS approval.
e. The program would expire Sept.30, 1985

In evaluating this program, using the same criteria as used for the two other programs, it can be concluded that:

1. It is simple to understand and administer. The program is based on 1982 production which is about where production levels are now. Only 50-60% instead of ~~the~~ 100% of the producers will be involved. There are no individual differences in monthly pay prices to producers. The farmer deals with the ASCS office (now in place). There are no new Government bureauocracy, additional accounting or administrative problems created for dairy plants and producers.
2. It is voluntary and involves minimum of Government regulation. Farmers sign up for one year. The government makes two payments. It regulates only producers who choose to be regulated, an estimated 60%.
3. The program would be effective in cutting production and Government price support costs. "Hoards Dairyman" Magazine conducted a national survey to determine acceptability and effectivemess of this voluntary program. Results showed about 60% participation and an 8-9 billion ~~pound~~ Percent reduction in production. It indicates a substantial savings over present and alternative dairy programs.
4. The program definitely terminates at the end of two years.
5. The "Hoards Dairyman" survey showed approximately equal response for all regions of the U.S., so apparently would be equitable to all producers and plants nationally. It does not promote regionalization.
6. The voluntary program does not destroy dairy farm production capacity. It allows producers maximum flexibility to stay in business and meet financial obligations according to their own individual situations. This program is not harsh or punitive in nature. Highly leveraged and young farmers will be allowed to survive. Farm values will be maintained.

The voluntary approach represents the simplest, most acceptable and effective program to solve the dairy surplus problem. This is in the best interests of producers, consumers and the Government.

Detailed analysis
of

WHY CUTTING PRICE SUPPORTS IS AN UNDESIRABLE SOLUTION TO THE SURPLUS PROBLEM

1. See exhibit A prepared by Professor Truman Graf, University of Wisconsin. It can be concluded from the exhibit that:
   a. A price support reduction of $1.10/cwt. would reduce CCC purchases 4.7 billion pounds.
   The CCC cost to purchase 9.1 billion pounds would be $1.5 billion plus an estimated handling cost (based on past experience) of $3.90/cwt. or $355 million, giving a total CCC purchase cost of $1.85 billion. This figure is still unacceptable.

   b. If price supports were cut $2.20/cwt to $10.90/cwt. one could expect CCC purchases of 4.4 billion pounds, due consideration being given to increased consumption and decreased production. This would result in total CCC costs of $607 million dollars.

   c. It would reduce dairy farm income by $2.20/cwt or 20%. Such a drop would have a devastating effect on highly leveraged younger farmers. It would adversely affect local economies, farm values, local banks, the farm credit system, tax bases (income, personal property and real estate) and increase unemployment in an already depressed economy.

2. Professor Robert Cropp, University of Wisconsin, Platteville, estimates that a 12 billion pound reduction in production (9%) can be obtained with CCC total costs of $600 million under the Wisconsin Voluntary Incentive Plan. This can be done with charging a 50¢/cwt. assessment on all producer milk or a $12.60/cwt. net support price to farmers ($13.10-50¢ assessment)

   Thus the Voluntary Incentive plan is more effective in reducing CCC costs without the adverse effects of a ruinous price support cut.

   There is no argument by T.A.P.P. that the price support level is presently too high. We don't argue that the price support may have to be lowered after two years. If the price support level is maintained at $13.10 for two years, the price support level as a percent of parity will be much lower than now because production costs will continue to increase.
   By the end of two years the surplus problem would be eliminated (including elimination of present surplus CCC stocks), farmers would not have to go through the economic wringer of drastically lowered price supports and yet the end result would be a much lower price support (as a percent of parity) than at present.
   This would be the most economically and politically sound approach to solving the dairy support problem in the best interests of producers, consumers Congress and the administration.

3. A cut in support price would adversely affect the industry due to lowered value of inventories.

4. Eliminating cows instead of farmers should be an objective of any good dairy program, especially younger farmers who are needed to assure a future supply of milk at reasonable prices to consumers.

5. Some factors which should be considered in improving the Voluntary Incentive Plan:
   a. The sell back price of CCC should be lowered from 10% to 2% of purchase price. The HoardsDairyman survey indicated that Government purchases would be negligible, which gives rise to the possibility that free market prices could increase substantially. The 2% sell back would put a cap on consumer prices and assure that non-participants do not get a price advantage over participants.

   b. There should be no objection to giving the Secretary authority to set price support levels at a minimum of 60% parity at the end of two years, when the program phases out. Actually, to avoid politically motivated increases in dairy price supports in the future, adjustment of supports should be triggered by economic indices such as CCC purchase volumes, cow and replacement numbers, feed price ratio, alternative farm sources in income, inflation rate etc. In other words, eliminate political motivations which create problems such as we now experience.

6. If Southern and Eastern high utilization markets intend to minimize the effects of a lower price support rate by increasing Class I premiums they will face increasing pressure from reconstituted milk. In the end this could be disruptive to their long run interests in the dairy industry.

7. In summary, any drop in the price support level would be disruptive to the dairy industry. The same objective can be reached in a less punitive, economically and politically sound way in the best interests of everyone concerned.

EXHIBIT A

SHORT RUN EFFECT ON MILK SURPLUS OF REDUCING PRICE SUPPORT
$1.10 PER CWT FROM $13.10 PER CWT TO $12.00 PER CWT
(1982 DATA)

ANNUAL DEMAND

A. $13.10 PER CWT SUPPORT PRICE = 51% OF CONSUMER RETAIL PRICE - $25.69
B. $13.10 PER CWT - $1.10 PER CWT = 8.4% REDUCTION IN FARM PRICE
C. $25.69 PER CWT - $1.10 PER CWT = 4.3% REDUCTION IN RETAIL PRICE
D. -10% RETAIL DAIRY PRICE = + 4% RETAIL DAIRY SALES
E. -4.3% RETAIL DAIRY PRICE = + 1.72% RETAIL DAIRY SALES
F. 121.3 BILLION POUNDS COMMERCIAL MILK SALES x 1.72% = + 2.1 BILLION # MILK SALES WITH $1.10 PER CWT. DROP IN RETAIL PRICE

ANNUAL SUPPLY

A. -10% FARM MILK PRICE = -2.25% MILK PRODUCTION
B. -8.4% FARM MILK PRICE = -1.89% MILK PRODUCTION
C. 135.2 BILLION POUNDS x -1.89% = - 2.6 BILLION POUNDS MILK PRODUCTION WITH $1.10 PER CWT DROP IN FARM MILK PRICE

ANNUAL CCC PURCHASES

A. 13.8 BILLION POUNDS CCC PURCHASES WITH $13.10 SUPPORT PRICE
- 2.1 BILLION POUNDS INCREASED CONSUMPTION
- 2.6 BILLION POUNDS DECREASED PRODUCTION

9.1 BILLION POUNDS CCC PURCHASES WITH $12.00 SUPPORT PRICE

ANNUAL CCC COSTS

A. $2.2 BILLION (AT $13.10 x 13.8 BILLION # + HANDLING COSTS)
B. $1.5 BILLION (AT $12.00 x 9.1 BILLION # + HANDLING COSTS)

STATEMENT OF ERWIN BRUDER, PRESIDENT, BRUDER DAIRY PRODUCTS CO., EAST CLEVELAND, OHIO

It is ironic that exactly one year ago today I testified at the Dairy Symposium in Kansas City, which Secretary Block had called, to help address the dairy surplus problem.

In my testimony I said, and I quote, "...many farmers are increasing production to offset expenses. This increased production is not clearing through the commercial market, but is going into ever-increasing Government inventories. Since high inventories act as a cap on prices, this cycle will perpetuate itself by endless over-production into ever increasing inventories." I said this one year ago, and my forecast could not have been more accurate, for the inventories have increased alarmingly.

My purpose in testifying today is to try to protect the commercial cheese industry from devastation by any ill considered Government action. My two areas of concern are the proper handling of Government cheese inventories and any adjustment to the way milk prices are supported through purchase of cheese, butter, and nonfat dry milk.

Even after milk production is reduced, the need for reducing the inventory of Government cheese is acknowledged by everyone. But it strains credulity to see that some believe the current give-away programs will reduce inventory. As I testified a year ago, the process cheese give-away only diverts cheese for manufacturing from commercial processors to the C.C.C.'s inventory.

Now under a new announcement dated March 11, 1983, the Government is planning to increase the give-away with natural cheese also. Why can't the U.S.D.A. understand that reducing commercial sales will simply divert newly manufactured product to Government inventory. If commercial sales are reduced,a nearly corresponding amount of unsold product will be offered to the C.C.C. and put into inventory. This is not reducing inventory, but merely turning over old inventory for new. Introducing Government owned cheese into an already glutted domestic market will not reduce inventory, but it will reduce the commercial sector.

As for the humanitarian purpose of feeding our nation's hungry, we have programs for that, and if these programs need improving, let us improve them. But let us not foolishly believe that giving away free cheese will both feed the hungry and reduce surplus inventories.

In the year that has passed since I last publicly addressed this issue, these destablizing inventories have grown, which only makes the task more difficult, but not impossible. C.C.C. should either sell at world market prices or give away in foreign aid these mountains of cheese. I have heard all the arguments why this supposedly can not be done; the GATT agreements and possible retaliation from the E.C.; that sales to the Soviet Union would somehow be sending them "wrong signals"; or, recently, that we would offend New Zealand to the detriment of our national security. I can fully understand how politically unattractive it would be to have American consumers know that Russian consumers were paying less for American cheese and butter than they are paying. But we are talking about a temporary solution to adjust a hopefully temporary surplus problem. Every effort should be expended to sell our inventories in the world market, and without having the Department of State dictate to the Department of Agriculture.

At the same time, we should adopt a program of using our cheese inventories in foreign aid. Again, I have heard the supposed reasons why this can not be done: poor nations do not have adequate refrigeration or transportation, or we do not know if the recipients would even like our cheese. It seems that the donation of cheese to Poland, which was handled through the Catholic Relief Agency, went very well. Let us expand this program. Please explore what other areas of the world would welcome our cheese, and begin pursuing this avenue.

If you ask me how much a program of Foreign Trade or Aid would cost, I have a simple answer. I do not care! The Government owned cheese sitting in warehouses is costing a fortune as it is, and not doing anyone any good. Please, use foreign disposition to reduce these inventories, because, as I earlier stated, domestic distribution will not reduce the inventories but only recycle old product for new.

Let me now address the support price system. Before our present surplus problems began approximately 2½ years ago, the free market determined the price of milk products. The support price was a safety net, which protected the milk producer from having his selling price fall below his cost of production and assured the consumer of ample dairy products at fair prices. The mechanism was that if no one would pay a fair price for his milk, C.C.C. would be there as a customer of last resort. The commercial buying price for cheese has historically been above the support price. Now the support price, the price at which you will buy cheese, is above what the commercial market pays. How and why we got into this situation can be argued, and it is not my intent to put the onus on anyone, but merely to realize the facts as thet are.

Some officials of the U.S.D.A. have called for lowering the price support to reduce the present surplus. This will not work, as I will explain later if there is time for questions and answers. What I will address now, though, is the effect that reducing your paying price for cheese will have.

First realize that the price I and others in the cheese industry now pay for current cheese has been basically set by your purchase price. Our selling price is greatly influenced by your 110% sell back price. If you drop these prices, you will virtually devastate the commercial sector. I have always been willing to accept the risk of the free market. But now it is Government who is threatening me and the entire commercial sector. If you drop these purchase or selling prices without protection to those of us who own inventory, you could put us all out of business. We have purchased cheese, in good faith, at a price basically set by the U.S.D.A. If you undercut us now, you will put most of us out of business. And if you think you have a lot of cheese being sold to Uncle Sam now, just wait and see what you will have then. If I am not around, and if my commercial competitors are not around to purchase cheese, then this cheese will go to you.

You are my competitor. You own more cheese than anyone in the industry, and you now buy more each week (approximately 18 million pounds at the present time) than anyone. You now set the purchase price and greatly influence the selling price. I have not complained before because I have a better product, better serviceand pricing that keeps me in business. My company does a good job of supplying our fine customers with some of the best sharp cheddar cheese available anywhere. But now you threaten and scare me.

A single ill-conceived program, if implemented, would jeopardize my company's existence as well as the entire commercial cheese industry. And then you, along with a few survivors, would be the cheese industry.

You would buy and sell the cheddar cheese of the country. Somehow I do not believe this is the role of the U.S. Government.

There are good ideas in the industry on solving the present over-supply situation. I personally favor the V.I.P. program. It offers a positive incentive to the dairy farmers to reduce production, and that is so important. A cut in the support price only offers the threat of bankruptcy to the farmers if they cut production. We must all be pragmatists on this issue. Philosophies on quotas, bases, or tiers have no place in resolving the problem. If it works, do it. Agree upon the plan that does the most good and least harm, and act. Compensate those you hurt, but please act. When I think of the effects of cutting the support price, I think of one of the speakers at the Kansas City Symposium. He stated, "cull cows, not farmers." It sounded good then, and it still sounds good today.

A keystone of the Agriculture Stabilization and conservation Service is to stabilize. To stabilize production, to stabilize prices, to help alleviate shortages and surpluses with their corresponding sky-high or rock-bottom prices, to insure a sound dairy industry. For many years you have done this very well. Now that problems are here, I am here to warn you to act quickly but cautiously and not to destroy the cheese industry with a quick fix, such as dumping your inventories domestically or cutting the purchase oe sell-back price of cheese.

Thank you. I will be happy to answer any questions.

STATEMENT OF KEITH ECKEL, PRESIDENT, PENNSYLVANIA FARMERS' ASSOCIATION

I am Keith Eckel, president of the Pennsylvania Farmers' Association. I am a dairy farmer from Clarks Summit, Pennsylvania, and submit testimony today on behalf of 23,429 farm family members from across our State. Over 50% of our members produce milk.

The Pennsylvania Farmers' Association is pleased to testify before this subcommittee to present its recommendations concerning changes on the dairy price support program. Even though our membership comes from within the boundaries of one state, we recognize that the current supply demand imbalance as a national problem and must be dealt with accordingly.

Voting delegates at our November, 1982 annual meeting devoted much time to the discussion of needed changes on the national dairy program. The following policies were adopted unanimously by the delegate body.

1) That the fifty cent deduction deadline set for December 1 be extended to allow producers more time to offer suggestions and develop an alternative to the surplus problem
2) That PFA work for a production reduction plan for dairy farmers underwhich 1) milk producers who reduce production would not be penalized by having to pay an assessment but would rather be rewarded for reducing production, 2) milk producers who maintain past production would receive a flat rate, 3) milk producers who continue to increase production would receive a reduced rate for excess production.

We do not believe an assessment on all dairy farmers will correct the current supply demand imbalance or solve OMB budgeting situation. Many farmers are planning to increase production in order to compensate for the 50¢ per hundredweight lost through the assessment. Milk production continues to rise, production in February totaled 10.6 billion pounds, 2.3% more than February, 1982, and 4.6% more than February, 1981. As farmers increase production to cover costs, total expenditures for the program will multiply and the government will become the owner of even more butter, cheese, and powdered milk. Estimated costs for CCC purchases in 1983 are likely to exceed $2.4 billion, an amount that is inconsistent with the original intent of the program.

We urge that the current 50¢/hundredweight assessment and planned second 50¢ assessment be repealed. In its place, we recommend a two phase dairy program that will reestablish the proper balance between supply and demand and then maintain that balance automatically. This proposal we present to you today is built on the foundation of principles we consider essential to any successful dairy program.

1) the cost of the program is of major concern and must be minimized.
2) the program must be simple to administer and be easily understood by dairy farmers.
3) the program must bring supply into line with demand through voluntary measures.
4) the program must supply a structure that will automatically balance supply and demand in the future.

Phase one of this proposal is designed to reduce supply by providing an economic incentive for dairy farmers to reduce production rather than by reducing the number of individuals who produce milk. This will be accomplished by economically rewarding farmers who reduce production and penalizing farmers who increase production.

Revised figures put 1982 production at 135.2 billion pounds, 13.5 billion pounds above commercial disappearance of 121.7 billion pounds. Since the inception of the dairy price support program in 1949 through 1980, CCC purchases averaged 4.8 billion pounds of milk equivalent per year. Phase one will reduce government purchases by the difference between total production and commercial disappearance less the necessary government purchases needed to stabilize the market.

Dairy farmers will participate in this program because there is a significant reward for reducing production and a significant penalty for increasing production. One year will be needed to reduce CCC purchases to five billion pounds. If 100% of dairy farmers participate, the cost to the government will be 2.43 billion dollars, almost equal to the current cost of 2.2 billion dollars. But only 70% of dairy farmer must participate to make the program work. This reduction plan would automatically terminate when CCC purchases reach 4% of all milk marketed.

Under this plan, the average quarterly production level for each producer for the time period 1/1/80 through 12/31/82 would be calculated. A minimum of one year's production would be required for this calculation. The Secretary of Agriculture would determine the needed reduction by dividing commercial disappearance by total production. Those farmers who reduce marketings by this percentage would receive a bonus of 15% of the support price multiplied by their entire production. Those farmers who increased production by any amount would be penalized by the same percentage times their entire production. Adjustments to producers would be made in equal installments during the next quarter. Hardship cases would be handled by local ASCS committees and new producers would enter the market at 90% of the current support price. Only members of the same family would be permitted to pass on a production average. Administration of this program would be conducted through Federal Milk Marketing Orders, State and County ASCS committees, and State milk marketing orders.

Phase two of this proposal is designed to keep supply and demand in line by indexing the support price to CCC purchases. As milk production goes up, the support price will go down, automatically. As the supply of milk falls the support price will rise automatically. This scale will allow the market, not government to set both supply and price.

Adjustment of the support price will be made quarterly by the secretary based on predicted CCC purchases for the upcoming 12 month period. The support level will range from 60 to 90% of parity and be indexed to 2.0 to 11.6 billion pounds of CCC purchases. This sliding scale will be implemented when CCC purchases reach 4% of milk marketed and will effectively work to maintain both supply and price at a fair level.

I thank you for the opportunity to submit testimony today to discuss the Pennsylvania Farmers' Association's ideas for the national dairy program. May I reiterate, that our goal is to reduce the amount of milk produced in this country, not the number of dairy farmers.

We propose to do this through a short term production reduction incentive program followed by an indexed scale that will balance supply and demand in the long run. This proposal will soon be introduced into Congress. We ask your serious consideration.

STATEMENT OF GENE MARKS, PRESIDENT, GEORGIA MILK PRODUCERS, INC.

Comments prepared for the Senate subcommittee on agriculture production, marketing and stabilization of prices hearing on the Federal price support program for Dairy.

We appreciate this opportunity to present our views on dairy legislation on behalf of Georgia's dairymen.

When Georgia Federal order pricing went into effect on April 1, 1969, the support price was $4.28 per hundredweight (cwt) for 3.5% butterfat milk; the Class I Federal Order) price was $6.71/cwt. The Georgia Class I'price is determined by a differential of $2.30/cwt. ADDED to the Minnesota/Wisconsin price series for the second preceding month. The Minnesota/Wisconsin price series is directly affected by the support price. The April 1, 1969, support price represented a support level of 63.8% of the Class I price. On April 1, 1983, with a support price of $12.82/cwt. for 3.5% butterfat milk and a Federal Order Class I price of $14.89, the support price represented 87.3% of Georgia's Class I price. The 1983 figure demonstrates the increase in the support price in relation to the Class I Federal Order price.

According to the USDA publication intitled "Costs and Returns of Producing Milk in the United States --- 1979,1980, and preliminary 1981, prepared by the Economic Research Service, USDA for the year ,1981, net returns to producers in the Appalachion Region (in which Georgia is included) averaged only $0.70/cwt. whereas , the average returns to producers for all regions was $1.97/cwt. and returns to producers in the upper midwest averaged $2.43/CWT. for the same period.

We believe the basic formula for class I prices should be held at the January 1983 level. This could be done for a limited period of time in order to provide opportunity for federal order hearings to consider price differentials.

Georgia Dairymen prefer and support the general concepts included in House Resolution 1604. We believe the plan is the most equitable solution for dairymen and consumers.

IMPACT OF CHANGES IN SUPPORT PRICE ON U.S. MILK SUPPLIES AND UTILIZATION

by

Albert J. Ortego, Jr. and John L. Smith [1] [2]

Dairymen, Inc. supports a decrease in the support price for milk as the preferred solution to the current dairy overproduction problem in the U.S. The basic reasons for this position have been presented earlier and, hence, will not be reiterated herein.

The primary objective of this paper is to present our determination of the impact of a reduction in the support price of $1.00 per hundredweight. In order to accomplish this objective, it is necessary to determine those factors that have a direct bearing on milk production in the U.S. Once the relationship between these factors and milk production are determined, the impact of changes in these factors on milk production can be estimated.

Since government policies have a direct influence on milk prices and feed prices (through the PIK program), the impact of these two factors are of utmost importance in projecting U.S. milk production in the next few years. Using data for the U.S. for the years 1966 through 1982, some twenty equations were tested to develop the relationships between U.S. milk production and milk prices and feed prices. Equations were run using nominal prices (actual prices), prices deflated by the Consumer Price Index and other deflators, lagged prices, current prices, and combinations thereof, etc. To allow for problems of serial correlation (or autocorrelation), the coefficients (relationships) were estimated with an autoregressive technique[3]. The equation used was selected as the best one from the standpoint of the R^2, t-ratios of the coefficients, and predicted values of milk production versus the actual milk production for the years 1966-82. The latter is how well the mathematical relationships tracked the reality of the 1966-82 period.

Based on these criteria, milk production (Y) can be best projected by using the price for milk lagged by one year (X_1), the current price for dairy ration (X_2), and the lagged (one year) price for dairy ration (X_3). 4/

The equation was of the following form:

(1) $Y = a + b_1X_1 + b_2X_2 + b_3X_3$

Based on 1966-82 data, the following coefficients, t-ratios and R^2 were determined and used:

(2) $Y = 110.638 + 3.888X_1 - 2.5696X_2 - 1.3996X_3$

(t-ratios) (4.223) (-2.095) (-0.821)

$R^2 = 0.818$

"Y" is annual U.S. milk production and is expressed in billion pounds.

"X_1" is milk prices received by farmers and is expressed in dollars per hundredweight.

"X_2" is current price for dairy ration and is expressed in dollars per hundredweight.

"X_3" is the lagged price for dairy ration and is expresssed in dollars per hundredweight.

Using this equation (2), the supply price elasticities were derived for the lagged farm price of milk, the current price for dairy ration, and the lagged price for dairy ration. These elasticities were +.2554, - .1102, and -.0571 for farm milk price, current feed price, and lagged feed price respectively.

These were then used to predict total milk production for future periods. In making projections, the following price data were used:

	Marketing Years		
	1982-83	1983-84	1984-85
All Milk Prices	13.34	12.80	12.80
Feed Prices (ration)	7.42	7.88	8.01

The milk price for 1982-83 assumes an assessment of 50 cents beginning April 16, 1983. For the years 1983-84 and 1984-85, the milk prices assume a $1.00 per hundredweight reduction in the support price.

Feed prices take into account the impact of the PIK program. To estimate this impact, the following equation was used:

(3) $\Delta FP = 22.0\,\Delta CP + 4.1\,\Delta SP;\ R^2 = .74$, where:

ΔFP = change in feed price (16% dairy feed) per ton

ΔCP = change in corn price per bushel

ΔSP = change in soybean price per bushel

The change in price per ton of 16% dairy feed was determined by the above equation. The same percentage change in the price of 16% dairy feed calculated by the above equation was applied to the price for dairy ration (published by U.S.D.A.).

For the purpose of these projections, price changes were assumed to be:

	1982-83	1983-84	1984-85
Δ corn price	$ .07	$ .35	$ .10
Δ soybean price	$-.53	$ .83	$ .25

Commercial uses of milk were estimated by using price elasticities at the farm level, based on prices deflated by the CPI. The price elasticities used were - 0.112 for fluid milk and -0.352 for manufactured milk products.[5] Since the milk prices were deflated by the CPI, it was assumed that the CPI (1982=100) would increase 4.2% in the 1982-83 marketing year, and the 1983-84 and the 1984-85 indexes would increase by 6.0% each year. Based on these elasticities, the percentage change and commercial uses were predicted as follows:

Milk Prod.	Comm.Use 1982-83 Bil Lbs	% Chg. to 1983-84 %	Comm. Use 1983-84 Bil Lbs	% Chg. to 1984-85 %	Comm. Use 1984-85 Bil Lbs
Fluid Prod.	50.68	1.17	51.54	0.64	51.87
Manu. Prod.	73.32	4.26	76.45	1.96	77.94
Total	124.00	3.22	127.99	1.42	129.81

The following prices were used in making projections of demand for fluid and manufactured products:

	1982-83	1983-84	1984-85
Manu. Milk Prices	12.56	11.70	11.70
Fluid Milk Prices	15.17	14.40	14.40

Even though the nominal price remained the same in 1983-84 and 1984-85, the deflated price decreased because of the assumed higher CPI. Hence, commercial use would increase because of the lower "real" price.

Using the procedures outlined herein, the following table shows the impact of the $1.00 lower support price and the impact of the PIK program on milk production, commercial use, and government purchases. Commercial stocks of dairy products and imports were assumed to remain constant in this analysis.

EFFECTS OF $1.00/CWT. DECREASE IN DAIRY PRICE SUPPORTS
OCTOBER 1, 1983
(Billion Pounds)

	FY 81-82 Act.	FY 82-83 Est.	FY 83-84 Est.	FY 84-85 Est.
Milk Production	135.0	137.3	135.8	133.6
Farm Use	2.3	2.2	2.2	2.2
Marketings	132.7	135.1	133.6	131.4
Beginning Commercial Stocks	5.3	4.6	4.6	4.6
Imports	2.5	2.4	2.4	2.4
Commercial Supply	140.5	142.7	141.2	139.0
Commercial Use	122.1	124.0	128.0	129.8
Ending Commercial Stocks	4.6	4.6	4.6	4.6
Total Utilization	126.7	129.2	133.2	135.0
Commercial Supply	140.5	142.7	141.2	139.0
Less Total Utilization	126.7	129.2	133.2	135.0
CCC Net Removals	13.8	13.5	8.0	4.0

On the basis of this analysis (50 cents assessment April 16, 1983 through September 1983 and $1.00 decrease in supports on October 1, 1983), CCC net removals will be 13.5 billion pounds of milk equivalent for the 1982-83 marketing year; 8.0 billion pounds for 1983-84, and 4.0 billion pounds in 1984-85. Removals in the 1984-85 marketing year would be less than one-third of the amount for the 1982-83 marketing year.

These results are based on realistic assumptions and the best equations derived from data generated by conditions that existed for the 1966-1982 period.

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[1] Senior Vice President, Marketing/Planning and Director of Economics and Planning, respectively for Dairymen, Inc., Louisville, Kentucky.

[2] Prepared in consultation with Drs. Dale Carley, University of Georgia, Hal Harris, Clemson University, and Howard McDowell, Virginia Polytechnic Institute. All are Agricultural Economists that have considerable experience in milk marketing research.

[3] The low Durbin-Watson statistic from the ordinary least squares equations indicated a problem of autocorrelation.

[4] Other factors that influence milk production were excluded which implicitly assumes that such factors will remain constant.

[5] Dahlgram, Roger A., "Welfare Losses and Interregional Income Transfers Due to Regulation of the U.S. Dairy Markets", Ph D. Thesis Submitted to North Carolina State University.

STATEMENT OF RICHARD SHADE, TREASURER, LAKE SHORE FEDERATED DAIRY COOPERATIVES

We are extensively involved in the dairy industry as producers and handlers of dairy products. As such, we are extremely concerned with both the current status of the dairy price support program and plans to arrest the increases in dairy production. We have gone one step beyond being extremely concerned, however, and have worked to develop a plan to correct the problems with the dairy program in a manner that is in the best interest of and fair to the dairy farmer, the dairy industry, the consumer and the taxpayer. We have put a great deal of time and effort into the developement of this plan and have circulated it widely for comment among dairy farmers, USDA, and farm organizations. The plan presented here is intended to provide an alternative to the proposals currently being considered in the Congress.

In developing a dairy program, we attempted to draft a plan that:

* is voluntary.
* reduces the price support level,
  - to stimulate demand and thereby increase consumption of dairy products.
  - appeal to Members of Congress and their taxpaying constituents.
  - lessen the incentive for expanding milk production and for new producers to come on line.
  - lessen the price umbrella over imitations and substitutes.
* reduces the cost to the government of purchasing surplus milk products.
* is an uncomplicated program that can be easily understood and administered.
* generates a quick response from the dairy industry and milk consumers.
* promotes dairy products in the domestic market.
* is consistent with good dairy management.
* provides long-term benefits to the dairy industry and the consumers it serves.

Attached is a step by step explanation of how our proposal accomplishes these goals and projections of participation and budget savings. This brief discussion is intended to provide a quick understanding of its major components.

Our proposal calls for the elimination of the two 50 cent assessments permitted under current law. The price support, however, is reduced from $13.10 (per hundred weight) to $11.60. Provisions are included to return the price support level to 70 percent and then 75 percent of parity as CCC purchases decline. Producers could still receive $13.10 for their milk if they enroll in a government program to reduce dairy production. This program would provide dairy farmers who reduce their production by a least 10 percent of their past marketings with a deficiency payment that will bring the per hundred weight price of their milk to $13.10. If a dairy farmer desired to participate in the program but was not able to lower production by a full 10 percent, he/she would still be able to participate, although the deficiency payment would reflect a rate of $13.10 on 90 percent of production and a rate of $3.10 for the amount of production in excess of 90 percent. The two rates are only for calculation purposes. A farmer would receive one price for milk from the handler, but the deficiency payment would vary depending on how much production was decreased.

Thus, a farmer who produces 90 percent of past marketings would receive $13.10 for all milk marketed, $11.60 from the handler and $1.50 as a deficiency payment. A farmer who produces 95 percent of past marketings would receive a rolled-in price of $12.60, $13.10 for the first 90 percent and $3.10 for the next 5 percent. Farmers who do not wish to participate in the program, because they are increasing production or are new farmers who lack a marketing history, or for whatever reason, would receive $11.60 for all milk sold. The program is limited to farmers who agree to reduce production by at least 2 percent.

The program is, therefore, voluntary and limited to those who are willing to reduce production. For those willing to cutback on dairy production, an incentive in the form of a higher price for lower production is provided. Those wishing to expand or begin production are able to do so.

It is important to note that the price paid to the handlers for all milk sold to the CCC will be $11.60. There is no administrative burden on the handlers since they will not have to differentiate between milk from producers participating in the program and those not participating. A farmer in the program simply has to provide evidence of reduced production to the local ASCS office to receive a deficiency payment. Also, ASCS will only be required to maintain records on those farmers enrolled in the program, not on all dairy farmers as some other plans propose. Conservative estimates of participation in this program are set at 30 percent of all producers.

To sum up the major advantages of this plan:

- no farmer is forced to reduce production or is prevented from initiating or expanding dairy production.
- the government cost of purchasing excess dairy production (and the incentive to begin or expand production) is greatly reduced by a drop in the support price.
- the dairy farmers who are willing to reduce production are rewarded through the receipt of the current support price of $13.10.
- while the program requires a base for some farmers, it is a much more limited administrative burden than other plans that require production records on all producers.
- the combination of a lower price support and an incentive to reduce production will be far more effective in lessening the cost of the program and arresting the increase in production that a plan that only reduces the price or only provides an incentive to reduce production.

The plan also provides the Secretary of Agriculture with authority to reduce the support price to $10.60 if participation is not sufficient or if increasing production is not arrested. (Trigger dates and levels should be included to guide the Secretary in exercising this authority).

Our plan also calls for the imposition of a 15 cent assessment on all milk marketed to be used for domestic market promotion (5 cents) and foreign market development and export subsidization (10 cents). While the 10 cents for dairy export promotion and subsidization may have to be modified because of international trade policy constraints, the 5 cents for domestic promotion is essential to expand the market for dairy products.

Although it may not be administratively possible, we would also encourage the inclusion of some limitation on the sale of surplus dairy stocks to the CCC. We believe it is necessary to include, in some way, the entire dairy industry in solving the overproduction problem.

We believe this plan will lead to a quick response from the dairy industry and will provide the needed budgetary relief from the cost of the current dairy program. It offers savings to the taxpayer, cheaper prices to the consumer, a flexible and viable program to the dairy farmer, and an easily administered program to the government. It also provides an incentive for reduced dairy production and efforts to increase the demand for dairy products.

We are convinced this approach is much more effective and efficient than a straight price cut or a plan including record-keeping on and incentive payments to all dairy farmers. The dairy program is in trouble and its problems can only be solved by providing the proper incentives to dairy farmers without greatly increasing the level and cost of government involvement in dairy production. This plan provides an alternative that corrects the problems facing the dairy program without damaging the industry or increasing the cost of government involvement in the dairy industry.

NATIONAL FOOD PROCESSORS ASSOCIATION,
Washingtion, D.C., April 14, 1983.

Hon. THAD COCHRAN,
Chairman, Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The National Food Processors Association (NFPA) favors a lowering of price supports on milk and other dairy products; such reduction, we believe, would serve the interest of consumers and promote fiscal responsibility.

Members of this Association are engaged in the processing of fruits, vegetables, juices, milk and poultry, fish and shellfish, and many formulated food products of the food processing industry include aseptically canned milk and numerous food products in which milk is an ingredient.

Most of the foods utilized in this industry are highly perishable in their natural state and are purchased directly from growers or are carefully selected for processing in the open market. Members of this industry and their raw product suppliers are strong supporters of a free market in agricultural products.

NFPA commends the Subcommittee for its examination of the dairy price support program and particularly the level of support. We observe, as does the announcement of the Subcommittee's hearing, that high support levels result in large government surpluses. We believe the market for milk and milk products could be expanded and per capita consumption increased if finished product prices could be reduced or restrained, and if dairy products were priced for the market. For this reason, NFPA gives its general support to reduction of the price support for fluid milk.

I ask that this letter be made a part of the printed record of the Subcommittee's hearing of 13 April.

Sincerely,

RICHARD W. MURPHY,
Vice President, Legislative Affairs.

CACHE VALLEY DAIRY ASSOCIATION,
Smithfield, Utah, April 12, 1983.

To: The Office of Senator Orrin Hatch, 125 Russell Senate Office Building, Washington, D.C. 20510.

Re Repeal of the 50¢/cwt. deduction as part of the Omnibus Reconciliation Act of 1982.

Cache Valley Dairy Association, a co-operative consisting of approximately 530 dairy producers, opposes the implementation of the current 50¢/cwt. deduction for the following reasons:

1. The uniform imposition of a 50¢/cwt. deduction presupposes a 1-to-1 relationship between changes in the price support and commercial market prices received by producers. Commercial market prices vary widely from region to region and manufacturer to manufacturer depending upon the strength of their marketing program, costs of production, and other economic factors. Therefore, the "benefits" of the price support system are not evenly distributed, but the burden of the 50¢/cwt. deduction is uniformly imposed.

2. For those manufacturers with a strong marketing and advertising program, such as Cache Valley Dairy Association, the 50¢/cwt. deduction acts as a disincentive to continue such a strong marketing program. In fact, the deduction actually increases the incentive to sell milk products to the Commodity Credit Corporation, thereby, alleviating advertising, packaging, and transportation expenses. The deduction program plainly provides no incentive to reduce sales to the CCC. If the price support were reasonably reduced, the opposite effect would occur. Our dairy association would be willing to compete for the remaining market. The price support should be returned to what it was intended to be, a support, not a market leader.

3. Under the current program the deduction is based on a "per hundred weight basis" alone without taking into account butterfat and milk solids content. This is an irrational and arbitrary classification which discriminates unfairly between dairymen of differing circumstances inasmuch as producers are paid on the basis of poundage and butterfat and milk solids content. Those dairymen with herds that produce low volume but high butterfat content can yield the same amount of milk product as another dairy producer who sells high volume low butterfat milk, yet the former is taxed at a lower level than the latter.

4. By simply adding a tax or cost to the production of milk products, the retail prices for such products will not be lowered, but will, in fact, increase. In order to compensate for their losses, commercial producers will pass on their costs to consumers. This will not only hurt the consumer, but reduced consumption will hurt the dairy industry as well. Greater consumption (not increased price support) has been the goal of the dairy industry for many years. This goal will be frustrated by the current deduction program.

5. The 50¢/cwt. deduction is not imposed against milk products imported into this country. According to the government's theory concerning the price support program, these imports also "benefit" from the price support system as they displace domestic milk products which find their way to the CCC, but because they are not assessed, an unfair advantage is given the already heavily subsidized foreign producer as he is able to compete more favorably with American dairymen.

6. Payments by the CCC on purchases of milk products are made to processors/manufacturers and not directly to producers. The price support, however, is intended to benefit producers. The "trickle down" theory of benefit under which the price support system operates does not always work in actuality as it might in theory. Processors/manufacturers pay producers what the market will bear. In some instances, a windfall to processors/manufacturers may occur as the "indirect benefit that accrues to producers may be actually less than that intended by the government program.

7. The economic impact of the 50¢/cwt. deduction on the producers of our co-operative alone will be disastrous. Cash-flow, in this heavily capitalized industry, will be substantially decreased by the deduction. It is impossible for the average dairyman to prepare for such a reduction in his income where his financial plans and obligations have been based on expected future income. The family farm, which can least absorb such a decrease in income, will suffer the most. A poll of responding producers in our Association revealed that up to 50 percent would not be able to meet their current obligations as they become due if the deduction is imposed. The human cost of this program is incalculable.

For these reasons we ask the Congress to reconsider its previous action and repeal this unfortunate piece of legislation.

Blaine Rich,
Manager.

II

98TH CONGRESS
1ST SESSION

S. 491

To amend the Agricultural Act of 1949 to modify the dairy price support program for the 1983 through 1985 fiscal years.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 16 (legislative day, FEBRUARY 14), 1983

Mr. THURMOND introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Act of 1949 to modify the dairy price support program for the 1983 through 1985 fiscal years.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Dairy Price Support Amendments Act of 1983".

SEC. 2. (a) Section 201(d)(1) of the Agricultural Act of 1949 (7 U.S.C. 1446(d)(1)), as added by section 101(2) of the Omnibus Budget Reconciliation Act of 1982, is amended—

(1) by striking out "October 1, 1982" in subparagraph (A) and inserting in lieu thereof "with the date

of enactment of the Dairy Price Support Amendments Act of 1983"; and

(2) by striking out "$13.10" each place it appears in subparagraphs (A) and (B) and inserting in lieu thereof "$12.60".

(b)(1) Paragraphs (2) through (7) of section 201(d) of such Act are repealed.

(2) Section 201(d) of such Act, as amended by subsection (a) and paragraph (1), is amended—

(A) by striking out "(A)"; and

(B) by redesignating subparagraphs (B) and (C) as paragraphs (2) and (3), respectively.

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II

98TH CONGRESS
1ST SESSION

S. 498

To amend the Agricultural Act of 1949 to modify the dairy price-support program.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 16 (legislative day, FEBRUARY 14), 1983

Mr. D'AMATO (for himself, Mr. MURKOWSKI, Mr. BAUCUS, Mr. HATFIELD, Mr. INOUYE, Mr. SASSER, Mr. PROXMIRE, and Mr. MOYNIHAN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Act of 1949 to modify the dairy price-support program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraphs (2) through (7) of section 201(d) of the Agricultural Act of 1949 (7 U.S.C. 1446(d) (2) through (7)), as amended by section 101(2) of the Omnibus Budget Reconciliation Act of 1982, are repealed.

(b) Section 201(d) of such Act, as amended by subsection (a), is amended—

(1) by striking out "(A)"; and

(2) by redesignating subparagraphs (B) and (C) as paragraphs (2) and (3), respectively.

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II

98TH CONGRESS
1ST SESSION

S. 509

To amend the Agricultural Act of 1949 to establish a voluntary program to reduce both the level of milk production in the United States and the quantity of milk products purchased under the price-support program for milk.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 17 (legislative day, FEBRUARY 14), 1983

Mr. PROXMIRE (for himself and Mr. KASTEN) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition and Forestry

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A BILL

To amend the Agricultural Act of 1949 to establish a voluntary program to reduce both the level of milk production in the United States and the quantity of milk products purchased under the price-support program for milk.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Dairy Surplus Reduction Act of 1983".

SEC. 2. (a) Section 201(d) of the Agricultural Act of 1949 (7 U.S.C. 1446(d)) is amended—

(1) in paragraph (1)—

(A) in subparagraph (A) by striking out "1984" and inserting in lieu thereof "1985",

(B) by striking out subparagraph (B), and

(C) by redesignating subparagraph (C) as subparagraph (B),

(2) by striking out paragraph (3),

(3) in paragraph (4) by striking out "paragraphs (2) and (3)" and inserting in lieu thereof "paragraph (2)", and

(4) by redesignating paragraphs (4), (5), (6), and (7) as paragraphs (3), (4), (5), and (6), respectively.

(b) Section 201(e) of the Agricultural Act of 1949 (7 U.S.C. 1446(e)) is amended to read as follows:

"(e)(1) If for all or part of a fiscal year the Secretary provides for the deduction authorized in subsection (d)(2), then upon the request of any producer the Secretary shall enter into a contract for the purpose of reducing the quantity of milk marketed commercially by such producer during the related period (as described in paragraph (9)) specified in such contract.

"(2) Each such contract shall require that—

"(A) the reduction in the quantity of milk marketed commercially by such producer shall be an amount equal to a specified percentage, but not less than 5 per centum and not more than 30 per centum, of the quality of milk marketed commercially by such producer during the months of 1982 corresponding to the period specified in such contract, including any increase under paragraph (5) in such quantity;

"(B) any production capacity of any facility used by such producer for the production of milk shall not be used by such producer, or made available by such producer for use by any other for the production of milk if such production capacity becomes available for such use because such producer reduces milk production in order to comply with such contract;

"(C) cattle which would or could have been used by such producer for the production of milk if such producer had not entered into and complied with such contract shall not be sold, leased, or otherwise transferred to another for the production of milk unless—

"(i) such transfer is to another with respect to whom there is in effect a contract entered into under this subsection; or

"(ii) such cattle are registered stock and are sold primarily for breeding purposes; and

"(D) such producer shall repay the Secretary, with simple interest payable at the rate of 12 per centum per annum commencing on the date payment is first received under paragraph (3), the entire payment received under this subsection if such producer fails to comply with such contract.

"(3)(A) Except as provided in subparagraph (B), the Secretary shall pay to a producer who complies with a contract entered into under this subsection by such producer an amount equal to the product of $10 per hundredweight and the difference, measured in hundredweights, between—

"(i) the quantity of milk marketed commercially by such producer during the months of 1982 corresponding to the period specified in such contract, including any increase under paragraph (5) in such quantity; and

"(ii) the quantity of milk marketed commercially by such producer during the period specified in such contract.

"(B) No payment shall be made under subparagraph (A) to a producer with respect to—

"(i) any reduction in the quantity of milk marketed commercially by such producer which exceeds the sum of—

"(I) 3 per centum of the quantity of milk marketed commercially by such producer during the months of 1982 corresponding to the period specified in such contract, including any increase under paragraph (5) in such quantity; and

"(II) the reduction in the quantity of milk marketed commercially, required under the provision of such contract described in paragraph (2)(A), as determined after any adjustment made by the Secretary under paragraph (4);

"(ii) any reduction in the quantity of milk marketed commercially by such producer if such reduction is less than the difference between—

"(I) the reduction in the quantity of milk marketed commercially, required under the provision of such contract described in paragraph (2)(A), as determined after any adjustment made by the Secretary under paragraph (4); and

"(II) 3 per centum of the quantity of milk marketed commercially by such producer during the months of 1982 corresponding to the period specified in such contract, including any increase under paragraph (5) in such quantity;

"(iii) any reduction in the quantity of milk marketed commercially by such producer if such reduction is equal to an amount less than 5 per centum of the aggregate quantity of milk marketed commercially by such producer during the months of 1982 corresponding to the period specified in such contract, including any increase under paragraph (5) in such quantity; and "(iv) any reduction in the quantity of milk marketed commercially by a producer who violates any requirement specified in subparagraph (B) or (C) of paragraph (2).

"(C)(i) Not later than thirty days after a producer enters into a contract under this subsection, the Secretary shall pay to such producer one-half of the estimated amount payable under such contract.

"(ii) The remainder of any amount payble under such contract shall be paid by the Secretary not later than thirty days after the Secretary determines that such producer has complied with such contract.

"(4)(A) The Secretary may modify all contracts entered into under this subsection by reducing on a pro rata basis the percentage reductions specified by producers as required in paragraph (2) to prevent an excessive decrease in the level of milk production in the United States during the period specified in such contracts if the Secretary determines and announces, not later than the beginning of such period, that the estimated decrease in the level of such milk production during such period will prevent the purchase of milk and the products of milk in accordance with subsection (d)(1).

"(B) The general extent of any modification to be made under subparagraph (A) shall be announced by the Secretary not later than fifteen days after the beginning of such period.

"(5) For purposes of this subsection, the Secretary may increase the quantity of milk referred to as being marketed commercially by a producer in 1982 if the Secretary determines that the quantity of milk actually so marketed was abnormally low and resulted from a natural or manmade disaster beyond the control of such producer.

"(6) A contract which is entered into under this subsection by a producer who transfers, by sale or otherwise, as a unit all such producer's interests in all milk facilities and all cattle used by such producer to produce milk for commercial marketing may be assigned by such producer to the transferee of such facilities and cattle if—

"(A) such producer and such transferee agree in writing that such transferee shall succeed to all rights and liabilities of such producer under such contract; and

"(B) a copy of such writing is submitted to the Secretary before such transfer occurs.

"(7) A contract entered into under this subsection by a producer who by reason of death cannot perform or assign such contract may be performed or assigned in accordance with this subsection by the estate of such producer.

"(8)(A) Any producer who enters into a contract, or to whom a contract is assigned, under this subsection and who fails to comply with any requirement specified in subparagraph (B) or (C) of paragraph (2) shall be liable for a civil penalty of not more than $10,000 to be assessed by the Secretary after a hearing on the record.

"(B) Any person against whom a civil penalty is assessed, under subparagraph (A) may obtain review of such penalty in an appropriate district court of the United States by filing a civil action in such court not later than thirty days after such penalty is imposed. As part of his answer, the Secretary shall file in such court a certified copy of the record upon which the findings and decision complained of are based. The findings of the Secretary may be set aside only if found to be unsupported by substantial evidence.

"(C) The district courts of the United States shall have jurisdiction to review and enforce any civil penalty imposed under subparagraph (A).

"(9) The period specified in accordance with paragraph (1) in a contract entered into under this subsection shall be—

"(A) the period beginning on the first day of the first month beginning after the date of the enactment of this Act and ending on September 30, 1983;

"(B) the period beginning October 1, 1983, and ending September 30, 1984; or

"(C) the period beginning October 1, 1984, and ending October 1, 1985.".

SEC. 3. (a) Except as provided in subsection (b), this Act and the amendments made by this Act shall take effect on the date of the enactment of this Act.

(b) The amendments made by section 2(a) shall take effect on April 1, 1983, or the date of the enactment of this Act, whichever is earlier.

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II

98TH CONGRESS
1ST SESSION

S. 658

To amend the Agricultural Act of 1949 to modify the dairy price support program for the 1983 through 1985 fiscal years, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 2 (legislative day, FEBRUARY 23), 1983

Mrs. HAWKINS (for herself, Mr. CHAFEE, and Mr. SYMMS) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To amend the Agricultural Act of 1949 to modify the dairy price support program for the 1983 through 1985 fiscal years, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "National Dairy Equity Act of 1983".

DAIRY PRICE SUPPORT PROGRAM

SEC. 2. (a) Section 201(c) of the Agricultural Act of 1949 (7 U.S.C. 1446 (c)), as amended by section 101(1) of the Omnibus Budget Reconciliation Act of 1982, is amended—

(1) by designating the first and second sentences as paragraphs (1) and (3), respectively; and

(2) by inserting after paragraph (1) the following new paragraph:

"(2)(A) Notwithstanding any other provision of law—

"(i) effective for the period beginning April 1, 1983, or the date of enactment of the National Dairy Equity Act of 1983, whichever is earlier, and ending September 30, 1983, the price of milk shall be supported at such level as the Secretary shall determine, but not less than $12.10 per hundredweight for milk containing 3.67 per centum milk fat; and

"(ii) effective for the period beginning October 1, 1983, and ending September 30, 1985, the price of milk shall be supported at such level as the Secretary shall determine, but not less than the applicable minimum level determined under subparagraphs (B) and (C).

"(B) Except as provided in subparagraph (C), the minimum price support level for milk shall be adjusted on October 1, 1983, and October 1, 1984, in accordance with net Government price support purchases of milk and milk products during the fiscal year preceding each such date as provided in the following table:

"If the net Government price support purchases of milk and milk products during the preceding fiscal year is (in milk equivalent) more than:	The price support level per hundredweight for milk containing 3.67 per centum milk fat shall not be less than:
7.0 billion pounds	$12.10
5.0 billion pounds but less than 7.0 billion pounds	$12.60
0.0 billion pounds but less than 5.0 billion pounds	$13.10

"(C)(i) If the Secretary determines on October 1, 1983, after consultation with representatives of the dairy farming industry, that estimated net Government price support purchases of milk and milk products during the period beginning October 1, 1983, and ending March 31, 1984, will be more than such purchases during the period beginning October 1, 1982, and ending March 31, 1983, the minimum price support level for milk for the period beginning October 1, 1983, and ending September 30, 1984, shall be adjusted in accordance with net Government price support purchases of milk and milk products during the fiscal year preceding October 1, 1983, as provided in the following table:

"If the net Government price support purchases of milk and milk products during the preceding fiscal year is (in milk equivalent) more than:	The price support level per hundredweight for milk containing 3.67 per centum milk fat shall not be less than:
7.0 billion pounds	$11.60
5.0 billion pounds but less than 7.0 billion pounds	$12.10
0.0 billion pounds but less than 5.0 billion pounds	$12.60

"(ii) If the Secretary determines on October 1, 1984, after consultation with representatives of the dairy farming industry, that actual net Government price support purchases of milk and milk products during the period beginning October 1, 1983, and ending March 31, 1984, were more than such purchases during the period beginning October 1, 1982, and ending March 31, 1983, the minimum price support level for milk for the period beginning October 1, 1984, and ending September 30, 1985, shall be adjusted in accordance with net Government price support purchases of milk and milk products during the fiscal year preceding October 1, 1984, as provided in the table prescribed in clause (i).".

(b) Subsection (d) of section 201 of the Agricultural Act of 1949 (7 U.S.C. 1446(d)), as added by section 101(2) of the Omnibus Budget Reconciliation Act of 1982, is repealed.

DAIRY SURPLUS REDUCTION

SEC. 3. It is the sense of the Congress that the Secretary of Agriculture should use the authority provided to the Secretary by law to reduce, to the maximum extent practicable, surplus dairy inventories held by the Commodity Credit Corporation.

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II

98TH CONGRESS
1ST SESSION

S. 866

To improve the operation of the milk price-support program, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 21, 1983

Mr. LEAHY introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To improve the operation of the milk price-support program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Milk Program Improvement Act of 1983".

SEC. 2. (a) Section 201(d) of the Agricultural Act of 1949 (7 U.S.C. 1446(d)) is amended by amending paragraphs (2) and (3) thereof to read as follows:

"(2)(A) Effective for the period beginning October 1, 1982, and ending September 30, 1985, subject to the limitations provided in paragraph (3) of this subsection, the Secretary may provide for a deduction of 50 cents per hundredweight from the proceeds of sale of all milk marketed commercially by producers to be remitted to the Commodity Credit Corporation for use, as provided in paragraph (3) of this subsection, in reducing the cost of the milk price support program. Authority for requiring such deduction shall not apply for any fiscal year for which the Secretary estimates that net price support purchases of milk or the products of milk will be less than five billion pounds milk equivalent. If, at any time during a fiscal year, the Secretary should estimate that such net price support purchases during that fiscal year will be less than five billion pounds, the authority for requiring such deduction shall not apply for the balance of the year.

"(B) Effective for the period beginning April 1, 1983, and ending September 30, 1985, subject to the limitations provided in paragraph (3) of this subsection, the Secretary may provide for a further deduction of 50 cents per hundredweight, in addition to the deduction authorized under subparagraph (A), from the proceeds of sale of all milk marketed commercially by producers to be remitted to the Commodity Credit Corporation for use, as provided in paragraph (3) of this subsection, in reducing the cost of the milk price support program. Authority for requiring such further deduction shall not apply for any fiscal year for which the Secretary estimates that net price support purchases of milk or the products of milk will be less than seven billion five hundred million pounds milk equivalent. If, at any time during a fiscal year, the Secretary should estimate that such net price support purchases during that fiscal year will be less than seven billion five hundred million pounds, the authority for requiring such deduction shall not apply for the balance of the year.

"(3)(A) The deductions authorized by paragraph (2) of this subsection shall be implemented only if the Secretary establishes—

"(i) a program whereby a portion of the funds resulting from such deductions will be made available to support dairy research and promotion activities if authorized by producers in a referendum, as provided in subparagraph (B) of this paragraph; and

"(ii) a program whereby the remainder of the funds resulting from such deductions will be made available for refund to producers who reduce their commercial marketings of milk to the level of marketings made during the base period, as provided is subparagraph (C) of this paragraph.

"(B)(i) Effective for the period beginning July 1, 1983, and ending September 30, 1985, the Secretary shall enter into agreements with, or approve agreements entered into among, milk production or marketing cooperatives, dairy trade associations, or others engaged in, or whose members are engaged in, the production or marketing of milk and the products of milk, for the purpose of developing and conducting, on a national basis, (I) sales promotion and advertising programs for milk and the products of milk, and (II) programs for the development and dissemination of information on the sale, distribution, marketing, or use of milk and the products of milk, to the end that the commercial marketing and use of milk and the products of milk are encouraged and the cost of the milk price support program is reduced. The Secretary shall use moneys available from the Milk Promotion Fund established under this subparagraph to cover the costs incurred under any such agreement, and may not enter into any such agreement for which moneys from the fund are not available.

"(ii) There is hereby established in the Treasury a fund to be known as the Milk Promotion Fund, into which, if approved by milk producers in the referendum described in this subparagraph, the Commodity Credit Corporation shall deposit 5 per centum of the deductions that are remitted to the Commodity Credit Corporation under paragraph (2) of this subsection, for use in supporting dairy research and promotion activities as provided in this subparagraph. The Milk Promotion Fund shall be terminated not later than September 30, 1986, and all unobligated money in the fund on that date shall be transferred to, and become part of, the miscellaneous receipts of the Treasury.

"(iii) Not later than May 31, 1983, the Secretary shall conduct a referendum among producers who, during a representative period, have been engaged in the production of milk for commercial use, to determine if the producers approve the use of 5 per centum of any deductions that are remitted to the Commodity Credit Corporation under paragraph (2) of this subsection to support dairy research and promotion activities as provided in this subparagraph, and the deposit of the funds for such purpose in the Milk Promotion Fund. No such use shall be made of the funds unless the Secretary determines that such is approved by not less than one-half of the producers voting in the referendum. The Secretary shall consider the approval or disapproval by any bona fide cooperative association of producers, engaged in marketing milk or milk products, as the approval or disapproval of the producers who are members of, or under contract with, the cooperative association of producers. If a cooperative association elects to exercise this prerogative on behalf of its members or those under contract with it, the cooperative association shall provide each producer on whose behalf the cooperative association is expressing approval or disapproval a description of the question presented in the referendum together with a statement of the manner in which the cooperative association vote was cast on behalf of producers. Such information shall inform the producer of procedures to follow to cast an individual ballot should the producer choose to vote. Individual ballots shall be tabulated by the Secretary, and the vote of the cooperative association shall be adjusted to reflect individual votes.

"(C)(i) Except as otherwise provided in clause (ii) of this subparagraph, the Secretary shall refund to the producer the deductions made under paragraph (2) of this subsection during any fiscal year, less any amount that may be used to cover the costs of dairy research and promotion activities (if authorized by producers in a referendum), as provided under subparagraph (B) of this paragraph, if the producer shall have had marketings of milk during such fiscal year in an amount not in excess of the producer's marketings during the base period (hereafter in this subparagraph referred to as the "marketing base"). For the purpose of this subparagraph, the base period shall be the calendar year ending December 31, 1980, except that for any producer who began producing milk for commercial markets after January 1, 1980, the producer's marketing base for the purposes of the preceding sentence shall be established by the Secretary at a level that reflects full production for the farm operation involved to meet, but not exceed, the needs of available commercial markets. The Secretary also may make such adjustments in individual marketing bases under this subparagraph as the Secretary determines necessary to correct for abnormal factors affecting production and to reflect such other factors as the Secretary determines should be considered in determining fair and equitable marketing bases.

"(ii) The Secretary may not require as a condition for making a refund of the entire amount collected from a producer (less any amount used to cover the costs of dairy research and promotion activities, as provided under subparagraph (B) of this paragraph) that the producer adjust marketings in excess of a reduction equivalent to the ratio that the total amount of surplus milk production for the fiscal year, as estimated by the Secretary, bears to the total milk production for such period, as estimated by the Secretary. The Secretary may provide for partial refund to be made of amounts collected from a producer who adjusts commercial marketings of milk but whose adjustment is insufficient to qualify the producer for the entire refund, taking into consideration the extent of the reduction in commercial marketings by the producer.

"(iii) The Secretary shall provide for refunds to producers in April and October of each year. If, based on total marketings for the year, the Secretary should determine that an overpayment has been made to the producer for the year, the producer shall repay the amount of the overpayment.

"(iv) Prior to approving any application for a refund, the Secretary shall require evidence that any adjustment in marketings has not been offset by expansion of marketings from other production facilities in which the person has an interest or by transfer of partial interest in the production facility or by the taking of any other action that is a scheme or device to qualify for payment.

"(D) The funds remitted to the Commodity Credit Corporation as a result of the deductions authorized under paragraph (2) of this subsection and available for making refunds to producers under subparagraph (C) of this paragraph that are not used in making refunds to producers shall be transferred to, and become part of, the miscellaneous receipts of the Treasury so as to offset expenditures to producers under the milk price support program.".

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